EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED FINANCIAL STATEMENTS

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Board of Directors' Report

Distinguished Shareholders of Emirates Islamic Bank PJSC,

Peace and Mercy of Allah be upon you.

I am pleased to report the 2017 financial results of Emirates Islamic Bank PJSC (EIB). The Bank has delivered strong results and the impressive performance in 2017 is demonstrated with a six-fold increase in net profit to AED 702 million and the highest ever recorded total assets of AED 61.9 billion. The Bank significantly increased its returns to shareholders with Return on Equity (ROE) of 10 per cent this year, up from 2 per cent in 2016. Over the years, Emirates Islamic has asserted its position as a leading financial institution in the UAE, with a vital contribution to the development of the overall Islamic finance sector.

I see Islamic banking in general and Emirates Islamic in particular playing a significant role, with the UAE economy set to grow steadily in 2018 on the back of a more stable oil price, a pick-up in global trade and infrastructure investments around Expo 2020. I am confident that Emirates Islamic will continue to be a key driving force in fulfilling the vision of His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of UAE and Ruler of Dubai in making Dubai the global capital of Islamic economy.

Underlining investor confidence in the bank, Fitch, the global ratings agency, affirmed Emirates Islamic's Long-Term Issuer Default Rating (LT IDR) of 'A+' with a Stable Outlook, Short-Term IDR (ST IDR) of 'F1', and a Viability Rating (VR) at 'bb-' for the second consecutive year.

2017 was the Year of Giving, as marked by U.A.E. President His Highness Sheikh Khalifa bin Zayed Al Nahyan, and Emirates Islamic continued to play its role in supporting the less fortunate and under-privileged sections of the society. We distributed AED 59 million to a number of charitable institutions and deserving causes, both locally and internationally. As we celebrate the Year of Zayed in 2018, we reaffirm our commitment to the late Sheikh Zayed's vision and values which have laid the foundation to a prosperous and successful UAE.

In 2017, Emirates Islamic was named 'Islamic Personal Finance Provider of the Year' by YallaCompare, the region's leading financial services comparison website. Other accolades received by Emirates Islamic include 'Most Improved Website' and 'Best Social Media Reach' at the 2017 Service Olympian Awards; 'Best Savings Account' and 'Best Islamic Premium Card' at the Banker Middle East Product Awards; and the title of 'Service Hero" in the Islamic Banking category of the Service Hero Index.

Board of Directors' Report

Basis of Preparation of Financial Statements

The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the applicable requirements of the laws of the UAE, and as per Islamic Sharia guidance.

Full Year 2017 Financial Highlights:

1. Net profit for the year increased by 565% reaching AED 702 million.
2. Total cost at AED 1 billion decreased by 7.5% compared with the previous year.
3. Total assets at AED 61.9 billion, up 4.5% from end 2016.
4. Financing and investing receivables at AED 33.8 billion, down by 7.0% from end 2016.
5. Customer deposits at AED 41.8 billion, up 1.7% from end 2016.
6. Impaired Financing ratio stands at 10.3% and coverage ratio at 92.2%.
7. Capital Adequacy Ratio improved to 17.4 % at December 2017.
8. Earnings per share improved to AED 0.129 in 2017.

Shareholders' Equity:

Total shareholders' equity as at the end of 2017 stands at AED 7.3 billion compared to AED 6.7 billion at the end of 2016.

Auditors:

Ernst and Young were appointed as auditors of Emirates Islamic Bank PJSC for 2017 financial year in the Annual General Meeting held on 12 February 2017.

Recommendations:

The Board of Directors raises the following recommendations to the Annual General Meeting:

1. To approve the consolidated Financial Statements for the year ended 31 December 2017
2. Transfer to reserves amounting to AED 140.4 million
3. Discharge of "Zakat" of AED 52.1 million due on shareholders' equity (excluding capital) as per clause of 72-G of Articles of Association

Board of Directors' Report

In the end, the Board of Directors extend their gratitude to the Shareholders for their boundless support and to all customers for their continuous trust and loyalty, as well as to the executive management of the bank and staff members for their dedication and commitment, praying to Almighty Allah for the best achievements in the New Year.

We pray to Almighty Allah to guide us all to the best.

Board of Directors

Hesham Abdulla Al Qassim
Chairman of Emirates Islamic

In the name of Allah, the Merciful, the Very Merciful

Report of the Shari'a Supervisory Board
Emirates Islamic for 2017

To the Shareholders of Emirates Islamic,

السلام عليكم ورحمة الله وبركاته

We submit as members of the Fatwa and Shari'a Supervisory Board (the "**Shari'a Supervisory Board**") of Emirates Islamic Bank PJSC (the "**Bank**"), the following Annual Report in relation to transactions executed in the year 2017.

The Shari'a Supervisory Board has reviewed the contracts relating to the transactions and applications introduced by the Bank during the period ended. We have also conducted due review to ensure that the Bank has complied with the Shari'a Principles and Rulings and also with the specific Fatwa, rulings and guidelines issued by the Shari'a Board during the year ended 2017.

To take into consideration that ensuring that the Bank functions in accordance with Shari'a Principles and Rulings is the duty of the Bank's Management. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

The Shari'a Supervisory Board of Emirates Islamic conducted, through Shari'a Audit of the Bank, review which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Bank and on the basis of reports of Shari'a Audit and Coordination and queries raised by the internal Shari'a Department of the Bank throughout the year. The Shari'a Supervisory Board endeavored through reasonable assurance that the Bank has not violated Shari'a Principles & Rulings.

Based on these insights, the conclusive view is of that:

1. The contracts, transactions and dealings, which were reviewed by us, and executed by the Bank during the year 2017 were found in compliance with the Shari'a Principles and Rulings;
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with the Shari'a Principles and Rulings;
3. All earnings that have been realized from sources or by means prohibited by the Shari'a Principles and Rulings have been set aside for disbursement to charitable causes as approved by the Shari'a Supervisory Board;
4. The mechanism of calculating Zakat is in compliance with the Shari'a Principles and Rulings and as per the Bank's Article of Association, the Bank is authorized to pay it on behalf of the shareholders.

We pray to Allah the Almighty to grant all of us the ultimate success and straight-forwardness.

والسلام عليكم ورحمة الله وبركاته

On Behalf of the Shari'a Supervisory Board – Emirates Islamic

Dr. Yousef Abdullah Alshubaily

Chairman & Executive Member of Shari'a Supervisory Board

Due Zakat on Emirates Islamic Bank Shareholders for the year 2017

Article (72-G) of the Articles of Association stipulates that: "The shareholders shall independently provide Zakat (Alms) for their money (paid up capital) and the Company shall calculate for them the due Zakat per share and notify them thereof every year. As for the money held by the Company as reserves, retained earnings and others, on which Zakat is due, the Company shall pay their Zakat as decided by the Fatwa and Sharia Supervisory Board, and transfer such Zakat to the Zakat Fund stipulated in Article (75) of Chapter 10 of the Articles of Association."

Shares' Zakat maybe calculated using one of the following methods:

❖ **First Method**

Zakat on shares purchased for trading purposes (to sell them when the market value rises) is as follows:

Zakat pool per share = Share quoted value + Cash dividends per share for the year

Zakat per share = Zakat pool per share x 2.5775%

Net Zakat per share = Zakat per share – 0.009609 UAE Fils (Zakat on reserves and retained earnings per share, paid by the Bank)
Total Zakat payable on shares = Number of shares x Net Zakat per share

* **Note:** Zakat is calculated at 2.5775% for the Gregorian year, and at 2.5% for Hijri year, due to the eleven days difference between the two calendars.

❖ **Second Method**

Zakat on shares purchased for acquisition (to benefit from the annual return):

Shares' Zakat = Total shares' dividends for the year x 10%

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES ISLAMIC BANK PJSC

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Emirates Islamic Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements and a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis of opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountant*s (the "IESBA Code") together with ethical requirements that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

(a) Impairment of financing and investing receivables

Due to the inherently judgmental nature of the computation of impairment provisions for financing and investing receivables, there is a risk that the amount of impairment may be misstated. The impairment of financing and investing receivables is estimated by management through the application of judgment and the use of subjective assumptions. Due to the significance of financing and investing receivables and related estimation uncertainty, this is considered a key audit risk. The corporate financing and investing receivables portfolio generally comprise larger receivables that are monitored individually by management. The assessment of financing and investing receivables loss impairment is therefore based on management's knowledge of each individual borrower. However, retail financing and investing receivables generally comprise much smaller value receivables to a much greater number of customers. Provisions are not calculated on an individual basis, but are determined by grouping product into homogeneous portfolios. The portfolios are then monitored through delinquency statistics, which drive the assessment of financing and investing receivables loss provision. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from collective models, are unsecured or are subject to potential collateral shortfalls.

The risks outlined above were addressed by us as follows:

- For corporate customers, we tested the key controls over the credit grading process, to assess if the risk grades allocated to the counterparties were appropriate. We then performed detailed credit assessment of all financing and investing receivables in excess of a defined threshold and financing and investing receivables in excess of a lower threshold in the watch list category and impaired category together with a selection of other financing and investing receivables.

- For retail customers, the impairment process is based on projecting losses based on prior historical payment performance of each portfolio, adjusted for current market conditions. We have tested the accuracy of key data from the portfolio used in the models and reperformed key provision calculations.

- We compared the Group's assumptions for collective impairment allowances to externally available industry, financial and economic data. As part of this, we critically assessed the Group's estimates and assumptions, specifically in respect to the inputs to the impairment models and the consistency of judgement applied in the use of economic factors, loss emergence periods and the observation period for historical default rates. We have made use of specialists to assess the appropriateness of the collective impairment calculation methodology.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES ISLAMIC BANK PJSC (continued)

Report on the audit of the consolidated financial statements (continued)

Other information

Management is responsible for the other information. Other information consists of the information included in the Group’s 2017 Annual Report, other than the consolidated financial statements and our auditors’ report thereon. We obtained the report of the Bank’s Board of Directors, prior to the date of our auditors’ report, and we expect to obtain the remaining sections of the Group’s 2017 Annual Report after the date of our auditors’ report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and in compliance with the applicable provisions of the Bank’s Memorandum and Articles of Association, the UAE Federal Law No. (2) of 2015 and Islamic Sharia’s rules and principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group’s financial reporting process.

Auditors’ responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES ISLAMIC BANK PJSC (continued)

Report on the audit of the consolidated financial statements (continued)

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EMIRATES ISLAMIC BANK PJSC (continued)

Report on the audit of the consolidated financial statements (continued)

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Further, as required by UAE Federal Law No. (2) of 2015, we report that:

- the Group has maintained proper books of account;
- we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015;
- the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;
- investments in shares and stocks during the year ended 31 December 2017 are disclosed in note 7 to the consolidated financial statements;
- note 28 reflects the disclosures relating to related party transactions and the terms under which they were conducted;
- based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2017, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2017; and
- note 35 reflects the social contributions made during the year.

Ernst & Young

Signed by:
Joseph Murphy
Partner
Registration No. 492

15 January 2018

Dubai, United Arab Emirates

EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Notes	2017 AED '000	2016 AED '000
ASSETS			
Cash and balances with U.A.E. Central Bank	5	13,258,584	11,662,802
Due from banks	6	11,182,044	7,755,193
Investments securities	7	1,808,550	1,479,214
Financing and investing receivables	8	33,835,397	36,342,568
Investment properties	9	462,942	474,830
Customer acceptances		617,349	776,050
Property and equipment		213,296	220,265
Other assets	10	503,202	517,267
TOTAL ASSETS		**61,881,364**	**59,228,189**
LIABILITIES			
Due to banks	11	5,286,185	1,807,918
Customers' accounts	12	41,822,450	41,131,007
Sukuk financing instruments	13	5,526,649	7,368,138
Customer acceptances		617,349	776,050
Payables and other liabilities	14	1,267,364	1,421,162
Zakat payable		52,181	35,139
TOTAL LIABILITIES		**54,572,178**	**52,539,414**
EQUITY			
Share capital	15	5,430,422	5,430,422
Statutory reserve	16	410,186	339,986
General reserve	16	315,965	245,765
Other reserve		4,403	-
Fair value reserve	16	(7,405)	19,404
Retained earnings		1,155,615	653,198
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP		**7,309,186**	**6,688,775**
TOTAL LIABILITIES AND EQUITY		**61,881,364**	**59,228,189**

Chairman **Chief Executive Officer**

The attached notes 1 to 35 form an integral part of these Group consolidated financial statements.
The independent auditors' report is set out on pages 6 to 10.

EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 AED '000	2016 AED '000
INCOME			
Income from financing and investing activities	18	2,083,419	2,225,334
Customers' share of profit and distribution to sukuk holders	19	(492,248)	(514,515)
NET FINANCING INCOME		**1,591,171**	**1,710,819**
Fees and commissions income	20	477,706	480,603
Income from investment securities	21	134,183	74,596
Other operating income	22	189,233	228,863
TOTAL OPERATING INCOME		**2,392,293**	**2,494,881**
EXPENSES			
Personnel expenses		(569,585)	(691,723)
General and administrative expenses	23	(396,264)	(371,322)
Depreciation of property and equipment		(43,665)	(27,841)
TOTAL OPERATING EXPENSES		**(1,009,514)**	**(1,090,886)**
NET OPERATING PROFIT BEFORE ALLOWANCES FOR IMPAIRMENT		**1,382,779**	**1,403,995**
Allowances for impairment on financial assets, net of recoveries	24	(680,781)	(1,333,048)
Allowances for impairment on non-financial assets, net of recoveries	24	-	34,685
		(680,781)	(1,298,363)
NET PROFIT FOR THE YEAR		**701,998**	**105,632**
Earnings per share (AED)	26	**0.129**	**0.027**

The attached notes 1 to 35 form an integral part of these Group consolidated financial statements.
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EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 AED '000	2016 AED '000
NET PROFIT FOR THE YEAR	**701,998**	**105,632**
Other comprehensive income		
Items that may not be reclassified subsequently to Income statement:		
Actuarial gains / losses on retirement benefit obligations	4,403	-
Items that may be reclassified subsequently to Income statement:		
Cumulative changes in fair value of available-for-sale investments		
- Net change in fair value	(11,209)	37,858
- Net amount transferred to income statement	(15,600)	(14,327)
	(26,809)	23,531
Total other comprehensive income for the year	**(22,406)**	**23,531**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**679,592**	**129,163**

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The independent auditors' report is set out on pages 6 to 10.

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EMIRATES ISLAMIC

EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

		2017	2016
OPERATING ACTIVITIES	Notes	**AED '000**	**AED '000**
Net profit for the year		701,998	105,632
Adjustments:			
Allowances for impairment on financing and investing receivables		727,170	1,369,690
Allowances for impairment on investments	24	35,642	124,369
Reversal of allowance for impairment on investment properties	24	-	(34,685)
Dividend income	21	(14,471)	(12,147)
Gain on sale of available-for-sale investments	21	(84,087)	(14,370)
Gain on sale of investment properties	22	-	(91,546)
Depreciation on investment properties	9	12,021	23,415
Depreciation on property and equipment		43,665	27,841
Operating profit before changes in operating assets and liabilities		**1,421,938**	**1,498,199**
Changes in balances with UAE Central Bank		1,091,961	(2,468,626)
Changes in due from banks		1,877,070	118,908
Changes in financing and investing receivables		1,780,001	(3,531,838)
Changes in other assets		20,295	52,746
Changes in customers' accounts		691,443	1,829,835
Changes in due to banks		145,156	(39,407)
Changes in other liabilities		(156,395)	(54,017)
Zakat paid		(35,139)	(33,483)
Net cash generated from/ (used in) operating activities		**6,836,330**	**(2,627,683)**
INVESTING ACTIVITIES			
Purchase of investment securities		(1,488,937)	(1,757,915)
Proceeds from sale of investment securities		1,181,237	2,479,338
Dividend income received		8,240	12,147
Additions in investment properties		(133)	(382)
Proceeds from sale of investment properties		-	434,304
Changes in property and equipment		(36,695)	(81,170)
Net cash (used in)/ generated from investing activities		**(336,288)**	**1,086,322**
FINANCING ACTIVITIES			
Issuance of sukuk financing		-	3,695,638
Repayment of sukuk		(1,841,489)	-
Issue of right shares		-	1,500,000
Net cash (used in)/ generated from financing activities		**(1,841,489)**	**5,195,638**
Net change in cash and cash equivalents		**4,658,553**	**3,654,277**
Cash and cash equivalents at the beginning of the year		6,822,904	3,168,627
Cash and cash equivalents at the end of the year	27	**11,481,457**	**6,822,904**

The attached notes 1 to 35 form an integral part of these Group consolidated financial statements.
The independent auditors' report is set out on pages 6 to 10.

EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP						
	Share capital AED '000	Statutory reserve AED '000	General reserve AED '000	Other reserve AED '000	Fair value reserve AED '000	Retained earnings AED '000	Total AED '000
As at 1 January 2017	5,430,422	339,986	245,765	-	19,404	653,198	6,688,775
Net profit for the year	-	-	-	-	-	701,998	701,998
Other comprehensive income for the year	-	-	-	4,403	(26,809)	-	(22,406)
Total comprehensive income for the year	-	-	-	4,403	(26,809)	701,998	679,592
Transfer to reserves	-	70,200	70,200	-	-	(140,400)	-
Directors' fees	-	-	-	-	-	(7,000)	(7,000)
Zakat for the year	-	-	-	-	-	(52,181)	(52,181)
As at 31 December 2017	**5,430,422**	**410,186**	**315,965**	**4,403**	**(7,405)**	**1,155,615**	**7,309,186**
As at 1 January 2016	3,930,422	329,423	235,202	-	(4,127)	603,831	5,094,751
Net profit for the year	-	-	-	-	-	105,632	105,632
Other comprehensive income for the year	-	-	-	-	23,531	-	23,531
Total comprehensive income for the year	-	-	-	-	23,531	105,632	129,163
Issue of right shares	1,500,000	-	-	-	-	-	1,500,000
Transfer to reserves	-	10,563	10,563	-	-	(21,126)	-
Zakat for the year	-	-	-	-	-	(35,139)	(35,139)
As at 31 December 2016	**5,430,422**	**339,986**	**245,765**	**-**	**19,404**	**653,198**	**6,688,775**

In accordance with the Ministry of Economy interpretation, Directors' fee have been treated as an appropriation from equity.

The attached notes 1 to 35 form an integral part of these Group consolidated financial statements.
The independent auditors' report is set out on pages 6 to 10.

1 LEGAL STATUS AND ACTIVITIES

Emirates Islamic Bank PJSC (formerly Middle East Bank) (the "**Bank**") was incorporated by a decree of His Highness the Ruler of Dubai as a conventional Bank with a limited liability in the Emirate of Dubai on 3rd of October 1975. The Bank was re-registered as a Public Joint Stock Company in July 1995 and is regulated by the Central Bank of United Arab Emirates. The Federal Law No. 2 of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. 8 of 1984.

At an extraordinary general meeting held on 10th of March 2004, a resolution was passed to transform the Bank's activities to be in full compliance with the Sharia rules and principles. The entire process was completed on 9th of October 2004 (the "Transformation Date") when the Bank obtained the UAE Central Bank and other UAE authorities' approvals.

The Bank is a subsidiary of Emirates NBD PJSC, Dubai (the "Group Holding Company"). The ultimate parent company of the Group Holding Company is Investment Corporation of Dubai, a company in which the Government of Dubai is the major shareholder.

The Bank is listed in the Dubai Financial Market (TICKER: "EIB"). The Bank's website is http://www.emiratesislamic.ae. In addition to its head office in Dubai, the Bank operates through 64 branches in the UAE. The consolidated financial statements for the year ended 31 December 2017 comprise financial statements of the Bank and its following subsidiaries (together referred to as "the Group").

	Date of incorporation & country	Principal activity	Ownership %	
			2017	**2016**
Emirates Islamic Financial Brokerage Co. LLC	26 April 2006, UAE	Financial brokerage services	100%	100%
EIB Sukuk Company Limited	6 June 2007, Cayman Islands	Special Purpose Entity	100%	100%
EI Funding Limited	15 May 2014, Cayman Islands	Special Purpose Entity	100%	100%

The Bank provides full commercial and banking services and offers a variety of products through Islamic financing and investing instruments in accordance with Islamic Sharia.

The Bank's registered office address is P.O. Box 6564, Dubai, United Arab Emirates.

2 BASIS OF PREPERATION

a) Statement of compliance

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), and the applicable requirements of the laws of the UAE. The principal accounting policies adopted in the preparation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The Group consolidated financial statements for the year ended 31 December 2017 have been approved for issuance by the Board of Directors on 15 January 2018.

b) Basis of measurement

The Group consolidated financial statements have been prepared under the historical cost basis except for the following, which are measured at fair value:

- Financial assets at fair value through profit or loss, and
- Financial assets available for sale.

2 BASIS OF PREPARATION (continued)

b) Basis of measurement (continued)

The Group consolidated financial statements are presented in United Arab Emirates Dirham (AED), which is the Group's functional currency. Except where indicated, financial information presented in AED has been rounded to the nearest thousand. The corresponding figures in the notes to the financial statements of 2016 have been reclassified in order to conform to the presentation for the current year. These changes have been made to improve the quality of information presented and do not impact the previously reported profit.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgments in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 3 (a).

c) Principles of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The list of Group's subsidiary companies is shown in Note 1.

Basis of consolidation

The Group consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the Group consolidated financial statements are prepared for the same reporting date as the Bank. Consistent accounting policies are applied to similar transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 in profit or loss. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interest in the acquiree are restated to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

2 BASIS OF PREPARATION (continued)

c) Principles of consolidation (continued)

i. Subsidiaries (continued)

Basis of consolidation (continued)

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

ii. Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific funding transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

a. the Group has power over the SPE;
b. the Group has exposure to, or rights, to variable returns from its involvement with the SPE; and
c. the Group has the ability to use its power over the SPE to affect the amount of the Group's returns.

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment is made at each statement of financial position date.

Information about the Group's securitization activities is included in note 13.

iii. Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank and is presented separately in the Group consolidated statement of income and comprehensive income and within equity in the Group consolidated statement of financial position, separately from equity attributable to owners of the Bank.

Changes in the Group owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative profits in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

3 SIGNIFICANT ACCOUNTING POLICIES

a) Use of estimates and judgments

The preparation of the Group consolidated financial statements in conformity with IFRS requires the management to use certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired financing receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant items which require use of estimates and judgments are outlined below:

i. Allowances for impairment of financing and investing receivables

The Group reviews its financing and investing receivables to assess impairment on a regular basis. In assessing impairment, the Group evaluates whether an impairment loss should be recorded in the Group consolidated statement of income. The Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from Islamic financing receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

In addition to specific allowance against individually impaired financing receivable, the Group also makes a collective impairment allowance to recognize, at any reporting date that there will be an amount of financing products which are impaired even though a specific trigger point for recognition of the loss has not yet occurred (known as the “emergence period”).

ii. Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the Group consolidated statement of financial position cannot be derived from quoted prices, they are determined using other valuation techniques. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values.

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

iii. Impairment of available-for-sale investment securities

The Group determines the impairment of available-for-sale investment securities when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates several market and non-market factors.

iv. Impairment of non-financial assets

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell.

v. Held-to-maturity investment securities

The Group follows the guidance of IAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment securities to maturity.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Use of estimates and judgments (continued)

vi. Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

b) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for asset or liability; or
- In the absence of principal market, in the most advantageous market for assets and liabilities

If an asset or a liability measurement at fair value has a “bid” price and “ask” price then the Group measure assets and long positions at a “bid” price and liabilities and short positions at an “ask” price.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Fair value is applicable to both financial and non-financial instruments.

c) Income from financing and investing receivables

Income from the following financing and investing receivables is recognised on the as follows:

Murabaha
The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised as it accrues over the life of the contract using an effective profit method on the balance outstanding.

Istisna’a
Istisna’a revenue and the associated profit margin (difference between the cash price to the customer and the bank’s total Istisna’a cost) are accounted for on a time proportion basis.

Ijara
Income from Ijara is recognised on an accrual basis over the period of the contract.

Mudaraba
Income from Mudaraba financing is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakala
Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Fees and commission

Fees and commission that are integral part of financing arrangement are included in the measurement of the effective yield.

Income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities).

Other fees and commission income, including portfolio and management fees, front end fees, Sukuk management fees are recognised as the related services performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

e) Earnings prohibited by the Shari'a

Earnings prohibited by the Shari'a are set aside for charitable purposes or otherwise dealt with in accordance with the directions of the Shari'a Supervisory Board.

f) Income from financial assets at fair value through profit or loss

Income from financial assets at fair value through profit or loss comprises gains less losses related to financial assets designated through profit or loss and includes all realized and unrealised fair value changes, profits, dividends, and foreign exchange differences.

g) Dividend

Dividend income is recognised in the Group consolidated statement of income when Group's right to receive income is established.

h) Rental income

Rental income from investment properties is recognised in the Group consolidated statement of income on a straight line basis over the term of lease.

i) Customer loyalty programme

The Group operates a rewards programme which allows customers to accumulate points when they purchase products using the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being earned. While some aspects of the programme are administered in-house, third party providers are used for certain other aspects of the programme.

In the case of the in-house administered aspects, the sale proceeds received are allocated between the products sold and the points issued, with the proceeds allocated to the points being equal to their fair value. Fair value is determined by applying statistical techniques. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

For aspects where third party providers are used, the consideration allocated to the rewards credits collected on behalf of the third party are charged to the Group consolidated statement of income at the time of supplying the rewards.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments

i. Classification

Financial assets

The Group classifies its financial assets in one of the following categories:

- Financing and investing receivables;
- Held to maturity;
- Available-for-sale; and
- Fair value through profit or loss.

Financing and investing receivables

Financing and investing receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These products are carried at amortised cost less impairment.

The following terms are used in financing and investing receivables:

- **Murabaha**: An agreement whereby the Group sells to a customer a commodity or a property which the Group has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises of the cost of the commodity and an agreed profit margin.

- **Financing Ijarah**: An agreement whereby the Group (lesser) leases an asset to a customer (lessee), for a specific period against certain rent installments. Ijarah could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee.

- **Istisna'a**: An agreement between the Group and a customer, whereby the Group develops and sells a property to the customer according to the specifications agreed upon. The Group may develop the property on its own or through a subcontractor, and then hand it over to the customer on a pre-agreed date and against fixed price.

- **Wakala:** An agreement whereby the Group provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

- **Mudaraba**: An agreement between two parties; one of them provides the funds and is called Rab-Ul-Mal, and the other provides efforts and expertise and is called Mudarib who is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of profit as Mudaraba fee. In case of normal loss; Rab-Ul-Mal would bear the loss of his funds while Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, the Mudarib would bear the losses. The Group may acts as Mudarib when accepting funds from the holders of investment, saving and wakala accounts and as Rub-Ul-Mal when investing such funds on Mudaraba basis.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

i. Classification (continued)

- **Musharaka:** An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Investment securities

- **Held-to-maturity**

Held-to-maturity assets are non-derivative financial assets, with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These assets are Sukuk instruments.

Held-to-maturity (“HTM”) investments are carried at amortised cost (less impairment, if any).

Sale of HTM assets is allowed only under the following circumstances:

- The investment is close enough to maturity as to have no impact on fair value;
- The principal is substantially received;
- Isolated events beyond the Group’s control;
- Significant credit deterioration;
- Major business combination or disposal; or
- Increase in regulatory capital requirements.

- **Available-for-sale**

Available-for-sale assets are financial assets that are not classified as financial assets at fair value through profit or loss, financing receivables, or held-to-maturity. Available-for-sale assets include certain sukuk and equity investments. These assets may be sold in response to needs for liquidity or changes in profit rates, exchange rates or equity prices.

Available-for-sale (AFS) financial assets may be freely sold. All AFS financial assets are measured at fair value.

The differences between cost and fair value is taken to the Group consolidated Statement of Other Comprehensive Income and recognised as a separate component in the consolidated statement of financial position, except in the case of impairment where the cumulative loss is taken to the Group consolidated statement of income. When the financial asset is sold, the full quantum of the difference between the fair value and cost, posted previously to the Statement of Other Comprehensive Income, is transferred to the Group consolidated statement of income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

- **Designated at fair value through profit or loss**

The Group designates financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial liabilities:

The Group classifies its financial liabilities, other than financial guarantees and financing commitments, as measured at amortised cost or fair value through profit or loss. Financial liabilities include customer accounts, sukuk issued and Wakala investments.

Customer accounts, Sukuk issued and Wakala investments are the Group's sources of funding.

Customer accounts

The Bank accepts customer investment and savings accounts either on Mudaraba basis or on Wakala basis.

Sukuk

When Group sells a group of financial assets and simultaneously enters into an agreement to repurchase similar group of financial assets at a fixed price on future date under securitization of such group of assets. Such arrangement is accounted for as a Sukuk liability and the underlying group of assets continues to be recognised in the Group consolidated financial statements.

Wakala

Investment Wakala is an agreement whereby one party (the "Muwakkil" / "Principal") appoints an investment agent (the "Wakeel" / "Agent") to invest the Muwakkil's funds (the "Wakala Capital") on the basis of an agency contract (the "Wakala") in return for a specified fee. The agency fee can be a lump sum or a fixed percentage of the Wakala Capital and is payable regardless the said Wakala generates profit or loss; while the share of the profit, if any, is an incentive for the Wakeel to achieve a return higher than expected. The Wakala profit, if any, goes to the Muwakkil, and he bears the loss. However, the Wakeel bears the loss in cases of default, negligence or violation of any of the terms of the Investment Wakala.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

ii. Recognition

Financial assets and liabilities are recognised in the Group consolidated statement of financial position when the Group becomes a party to contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets or liabilities designated at fair value through profit or loss or available-for-sale assets are recognised. Financing receivables are recognised on the day that they are transferred to or acquired by the Group.

All sales and purchases of financial assets and liabilities and resultant gains and losses are recognised and derecognised on the trade date (the date that the Bank becomes a party to the contractual provisions of the instrument).

iii. Reclassification

Reclassification of financial assets is done at the election of management, and is determined on an instrument-by-instrument basis.

For financial assets reclassified out of the available-for-sale category, any previous gain or loss recognised in equity is amortised to profit or loss over the remaining life of the asset, using the effective yield. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective yield. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the consolidated income statement.

iv. Derecognition

Financial Assets:

The Group derecognises financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial assets are transferred. Any profit in derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities financing, repurchase transactions and asset-backed securitizations.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

Financial Liabilities:

The Group derecognizes financial liability when its contractual obligations are discharged, cancelled or settled.

v. Measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

v. Measurement (continued)

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost less impairment allowances. All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

vi. Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

vii. Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the Group consolidated statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in the Group consolidated statement of other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in the Group consolidated statement of other comprehensive income is recognised in the Group consolidated statement of income.

viii. Impairment

Impairment of financing receivables

Losses for impaired financing receivables are recognised promptly when there is objective evidence that impairment of a finance or portfolio of financing receivables has occurred. Impairment allowances are calculated on individual financing receivables and on groups of financing receivables assessed collectively. Impairment losses are recorded as charges to the Group consolidated statement of income. The carrying amount of impaired financing receivables on the Group consolidated statement of financial position is reduced through the use of impairment allowance accounts.

Individually assessed financing receivables

For all financing receivables that are considered individually significant, the Group assesses on a case-by-case basis each quarter and more frequently when circumstances require whether there is any objective evidence of impairment. The criteria used by the Group to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the obligor;
- past due contractual payments of either principal or profit;
- breach of covenants or conditions;
- decline in the realisable value of the security;
- the probability that the obligor will enter bankruptcy or other financial realization; and
- a significant downgrading in credit rating by an external credit rating agency.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

viii. Impairment (continued)

For those financing receivables where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- the Group's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service borrowing obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the obligor to obtain, and make payments in, the currency of the finance if not denominated in local currency; and
- when available, the secondary market price of the borrowing.

Impairment losses are calculated by discounting the expected future cash flows of financing at its original effective profit rate and comparing the resultant present value with the financing's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed financing receivables

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on financing receivables subject to individual assessment; and
- for homogeneous groups of financing receivables that is not considered individually significant.

Incurred but not yet identified impairment (Corporate financing receivables)

Individually assessed financing receivables for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the reporting date, which the Group is not able to identify on an individual financing basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual financing receivable within the Group, those financing receivables are removed from the group and assessed on an individual basis for impairment.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

viii. Impairment (continued)

Incurred but not yet identified impairment (Corporate financing receivables) (continued)

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, finance grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual finance; and
- management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

The period between a losses occurring and its identification is estimated by management for each identified portfolio.

Homogeneous groups of financing receivables (Consumer financing receivable)

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of financing receivables that are not considered individually significant, because individual finance assessment is impracticable.

Losses in these groups of financing receivables are recorded on an individual basis when individual financing receivables are written off, at which point they are removed from the group.

Write-off of financing receivables

Financing receivables (and the related impairment allowance) are normally written off, in full, when there is no realistic prospect of recovery. Where financing receivables are secured, this is after receipt of any proceeds from the realization of security, if any.

Reversals / write backs of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the finance impairment allowance account accordingly.

The write-back is recognised in the Group consolidated statement of income.

Impairment of available-for-sale financial assets

At each reporting date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Financial Instruments (continued)

viii. Impairment (continued)

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous impairment loss recognised in the Group consolidated statement of income, is removed from other comprehensive income and recognised in the Group consolidated statement of income.

Reversal of impairment

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

Available-for-sale sukuk securities

A subsequent decline in the fair value of the instrument is recognised in the consolidated income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in Group consolidated statement of other comprehensive income. If the fair value of a sukuk security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Group consolidated statement of income, the impairment loss is reversed through the Group consolidated statement of income to the extent of the increase in fair value.

Available-for-sale equity securities

Subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in Group consolidated statement of other comprehensive income. Impairment losses recognised on the equity security are not reversed through the Group consolidated statement of income. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the Group consolidated statement of income, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

k) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Group consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

l) Cash and cash equivalent

Cash and cash equivalents consist of cash, balances with the Central Bank of the UAE and balances with banks and financial institutions with an original maturity of three months or less, less balances due to banks and financial institutions with an original maturity of three months or less.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are disclosed in the notes to the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell ('reverse repos') are recorded as financing receivables to either banks or customers, as appropriate. The difference between sale and repurchase price is treated as profit and accrued over the life of the agreements using the effective yield method.

n) Leases

The total payments made under operating leases, such as leases for premises, are charged to the Group consolidated income statement on a straight line basis over the period of the lease.

o) Property, equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Freehold land and fixed assets not commissioned are not depreciated. The estimated useful life of fixed assets for the Group is as follows:

Freehold premises	25 - 60 years
Freehold improvements	10 years
Leasehold improvements	7 years
Furniture, fixtures and office equipment	5 years
Computer hardware and software	4 years
Core banking software	5 - 7 years
Motor vehicles	3 years

Assets are depreciated on a straight-line basis over their estimated useful lives as given above.

Fixed assets not commissioned are stated at cost. When commissioned, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Group consolidated income statement.

p) Inventory

Properties acquired in settlement of financing are held as inventory and are stated at lower of cost or net realisable value. Directly attributable costs incurred in the acquisition of inventory is included as part of cost of the inventory.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Investment properties

Investment property is a property held either to earn rental income or for capital appreciation or for both, Investment property is initially measured at cost, including transaction costs and subsequently at cost less depreciation and impairment, includes expenditure that is directly attributable to the acquisition of the investment property. Investment properties are depreciated over a period of 25 years on a straight line basis.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Group consolidated statement of income in 'Other operating income' in the year of retirement or disposal.

Transfers to and from investment properties are made only when there is a change in use based on the business model.

r) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets including investment properties are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the Group consolidated statement of income. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group or units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

s) Provision

Provisions are recognised when the Group has a present obligation (legal or constructive), as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

t) Financial guarantees and financing commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a borrowing instrument. Financing commitments are irrevocable commitments to provide credit under pre specified terms and conditions.

Financial guarantees issued and commitments to provide credit are initially recognized in the Group financial statements at fair value.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Employee Benefits

Pension Benefits

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security.

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year. The provision for gratuity is recorded through the income statement.
The present value of the gratuity obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions which include but are not limited to discount rate. Any actuarial gains or losses are recorded through other comprehensive income.

v) Dividend on shares

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the Groups' shareholders in the Annual General meeting. Approved dividends after the year are recognised as a liability in the subsequent period.

w) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. The group has not issued any instrument which has a dilutive effect on earnings per share.

x) Related parties

A party is considered to be related to the Group if:

- the party, directly or indirectly through one or more intermediaries,

  (i) controls, is controlled by, or is under common control with, the Group;
  (ii) has an interest in the Group that gives it significant influence over the Group; or
  (iii) has joint control over the Group;

- the party is an associate;
- the party is a jointly-controlled entity;
- the party is a member of the key management personnel of the Group;
- the party is a close member of the family of any individual referred to in (a) or (d); or
- the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.
-

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Operating Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers' report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 29.

z) Profit distribution

Profit distribution between the unrestricted account holders (investment, saving and Wakala accounts) and the Shareholders, is according to the instructions of the Bank's Fatwa and Sharia supervisory board.

Net income realised from Mudaraba Pool, at the end of each quarter, represents the net profit available for distribution. Net profit available for distribution between unrestricted account holders and shareholders is calculated after deducting the Mudarib fee as per the agreed and declared percentage.

Profit Distribution is on a pro rata-basis of the weighted average balances of unrestricted customers' accounts and Shareholders' funds. No priority is given to either party in the Mudaraba Pool.

aa) Zakat

The Bank discharges Zakat (Alms) as per its Articles of Association. The Bank calculates Zakat based on the guidance of its Fatwa and Sharia Supervisory Board as follows:

Zakat on shareholders' equity (except paid up capital) is discharged from the retained earnings.
Zakat is disbursed to Sharia channels through a committee formed by management.
Shareholders themselves are responsible to pay Zakat on their paid up capital.

Zakat on the general provision or on other reserves, if any, is calculated and discharged from the share of profit of the respective parties participating in the Mudaraba Pool.

bb) Foreign currency transactions

Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. The resulting gain / loss on monetary items is taken to the 'Other operating income' in the consolidated income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Forward exchange contracts are valued at market rates applicable to their respective maturities.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

cc) New standards and interpretations effective after 1 January 2017

The following new and revised IFRSs have been applied in the current period in these consolidated financial statements. Their adoption had no significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

Standard	Description	Effective date
IAS 7, "Statement of cash flows"	The amendments issued are as follows: (a) introduce additional disclosure requirements intended to address investors' concerns as currently they are not able to understand the management of an entity's financing activities; (b) require disclosure of information enabling users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes; (c) do not prescribe a specific format for disclosures but indicates that we can fulfil the requirement by providing a reconciliation between opening and closing balances for liabilities arising from financing activities; and (d) are also applicable to financial assets that hedge liabilities arising from financing activities.	1 January 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

dd) New standards and interpretations not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2017. These have, therefore, not been applied in preparing these consolidated financial statements. New standards, amendments to standards and interpretations which are relevant to the Group are as follows:

IFRS 15, 'Revenue from contracts with Customers'.	This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18,'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2018
Interpretation 22 – Foreign Currency Transactions and Advance Consideration	The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration. If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt. Entities can choose to apply the interpretation: a) retrospectively for each period presented b) prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or prospectively from the beginning of a prior reporting period presented as comparative information.	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

ee) New standards and interpretations not yet effective (continued)

IFRS 9, 'Financial instruments'	In July 2014, the IASB issued IFRS 9 Financial Instruments ("IFRS 9"), which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 addresses all aspects of financial instruments including classification and measurement, impairment and hedge accounting. **(a) Classification and measurement** The standard requires the Group to consider two criteria when determining the measurement basis for debt instruments (e.g. loans, debt securities) held as financial assets: i) its business model for managing those financial assets; and ii) cash flow characteristics of the assets. And based on these criteria, debt instruments are measured at amortized cost, fair value through OCI, or fair value through profit or loss. Equity instruments are measured at fair value through profit or loss. However, the Group may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through OCI, with no subsequent recycling to profit and loss, while recognizing dividend income in profit and loss. In addition, the Group may, at initial recognition, irrevocably elect to designate a financial asset as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. This designation is also available to existing financial assets. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss.	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

dd) New standards and interpretations not yet effective (continued)

IFRS 9, 'Financial instruments'	**(b) Impairment** The standard introduces a new single model for the measurement of impairment losses on all financial assets including loans and debt securities measured at amortized cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL. Stage 1 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months. Stage 2 Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. Stage 3 Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

dd) New standards and interpretations not yet effective (continued)

IFRS 9, 'Financial instruments'	Key Considerations Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are: *Assessment of Significant Increase in Credit Risk* The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes. Our assessment of significant increases in credit risk will be performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2: (1) We have established thresholds for significant increases in credit risk based on movement in PDs relative to initial recognition. (2) Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk. (3) IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39. *Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios* The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

dd) New standards and interpretations not yet effective (continued)

IFRS 9, 'Financial instruments'	PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables. Our estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. Our base case scenario will be based on macroeconomic forecasts published by our internal economics group. Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions. Scenario design, including the identification of additional downside scenarios will occur on at least an annual basis and more frequently if conditions warrant. Scenarios will be probability-weighted according to our best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities. *Definition of default* The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due. *Expected Life* When measuring ECL, the Group must consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.	1 January 2018

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

dd) New standards and interpretations not yet effective (continued)

IFRS 9, 'Financial instruments'	*Governance* In addition to the existing risk management framework, we have established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management and Economics and will be responsible for reviewing and approving key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in our financial statements. **(c) Transition impact** In line with the IFRS 9 transition provisions, the Group has elected to record an adjustment to its opening 1 January 2018 retained earnings to reflect the application of the new requirements of Impairment, Classification and Measurement at the adoption date without restating comparative information. For classification and measurement, the combined application of the contractual cash flow characteristics and business model tests as at January 1, 2018 is expected to result in certain differences in the classification of financial assets when compared to our classification under IAS 39. Based on the assessment performed by the Group, these differences are not expected to have a material impact on the classification of Group's financial assets. IFRS 9 transition impact is expected to be 1.8 % of total assets of the Group as on 31 December 2017. Some of this is attributable to financial assets (such as Cash and Balances with Central Bank, Due from Banks, Customer Acceptances and Off balance sheet items), which were not considered under the incurred loss model in IAS 39 and the balance relates to the transition from an incurred loss model to an expected loss model. The Group continues to refine the impairment models and related process controls leading up to March 31, 2018 reporting. **(d) Financial instruments: disclosures (IFRS 7)** We will be amending the disclosures for 2018 to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories and three stage impairment model and transition provisions.	1 January 2018

Impact of other accounting standards

The Group has assessed the impact of other standards, amendments to standards, revisions and interpretations. Based on the assessment, these standards, amendments to standards, revisions and interpretations have no material impact on the consolidated financial statements of the Group as at the reporting date.

4 BUSINESS COMBINATION - ACQUISITION OF FINANCIAL ASSETS AND CUSTOMER DEPOSITS FROM DUBAI BANK PJSC

As part of an overall strategy to manage two sharia compliant banking businesses within the Emirates NBD Group, majority of assets and liabilities of Dubai Bank PJSC were transferred to Emirates Islamic Bank PJSC by virtue of a Sale Purchase Agreement dated November 30, 2012.

The objective of the combination was to manage two sharia compliant Islamic banking businesses under one roof in a cost effective manner.

5 CASH AND BALANCES WITH UAE CENTRAL BANK

	2017 AED '000	2016 AED '000
Cash in hand	367,632	263,571
Balances with UAE Central Bank :		
Current accounts	1,758,279	1,375,258
Reserve requirements	4,054,455	4,014,785
Murabaha	7,078,218	6,009,188
	13,258,584	**11,662,802**

The reserve requirements which are kept with the Central Bank of the UAE in AED and US Dollar are not available for use in the Group's day to day operations and cannot be withdrawn without the Central Bank of the UAE's approval. The level of reserves required changes every month in accordance with the Central Bank of the UAE's directives.

6 DUE FROM BANKS

	2017 AED '000	2016 AED '000
Due from local banks		
Current accounts	68	64
Interbank placements with other banks	2,440,338	1,491,491
Murabaha with Group Holding Company	3,884,569	3,751,041
Receivables from Dubai Bank (note 4 and note 28)	1,281,607	1,179,398
	7,606,582	**6,421,994**
Due from foreign banks		
Interbank placements	55,088	-
Current accounts	3,520,374	1,333,199
	11,182,044	**7,755,193**

7 INVESTMENT SECURITIES

	2017 AED '000	2016 AED '000
Available-for-sale		
Equity shares	562,227	686,038
Funds	515,561	660,718
Sukuks	1,249,963	718,694
	2,327,751	**2,065,450**
Held-to-maturity		
Sukuks	110,067	211,061
	2,437,818	2,276,511
Less: Allowance for impairment	(629,268)	(797,297)
	1,808,550	**1,479,214**
Investment securities comprise:		
Quoted	1,278,933	864,765
Unquoted	529,617	614,449
	1,808,550	**1,479,214**
Held-to-maturity investments located:		
Within UAE	-	91,813
Outside UAE	9,072	12,623
	9,072	**104,436**
Available-for-sale investments located:		
Within UAE	538,403	334,363
Outside UAE	1,261,075	1,040,415
	1,799,478	**1,374,778**
	1,808,550	**1,479,214**
Movements in allowances for impairment:		
Balance at the beginning of the year	797,297	678,832
Allowances for impairment made during the year (note 24)	41,272	128,140
Recoveries / write backs during the year (note 24)	(5,630)	(3,771)
Write off / transfer during the year	(203,671)	(5,904)
Balance at the end of the year	**629,268**	**797,297**

Included in available-for-sale investment securities is an amount of AED 386,000 (2016: AED 386,000), pledged under repurchase agreements with banks.

8 FINANCING AND INVESTING RECEIVABLES

	2017 AED '000	2016 AED '000
Murabaha	22,934,212	25,303,142
Ijarah	13,178,245	13,539,998
Istisna'a	1,897,264	1,934,104
Financing wakala	244,467	435,256
Mudaraba	134,218	91,150
Credit card receivables	1,208,251	1,101,315
Others	153,523	189,240
	39,750,180	42,594,205
Less: Deferred income	(2,369,625)	(2,753,333)
Less: Allowances for impairment	(3,545,158)	(3,498,304)
	33,835,397	**36,342,568**
Total impaired financing and investing receivables	**3,844,070**	**3,610,230**
By Segment :		
Consumer banking	20,769,123	22,910,839
Corporate banking	13,066,274	13,431,729
	33,835,397	**36,342,568**
Movements in allowances for specific impairment:		
Balance at the beginning of the year	2,653,028	2,242,788
Allowances for impairment made during the year	1,202,173	1,808,826
Recoveries / write backs during the year	(280,513)	(591,073)
Transfer from Dubai Bank PJSC	-	26,116
Amount written off during the year	(680,316)	(833,629)
Balance at the end of the year	**2,894,372**	**2,653,028**
Movements in allowances for collective impairment:		
Balance at the beginning of the year	845,276	693,339
(Reversal) / Allowances for impairment made during the year	(194,490)	151,937
Balance at the end of the year	**650,786**	**845,276**
Total	**3,545,158**	**3,498,304**

Corporate Ijara assets amounting to AED 4.8 billion (2016: 5.9 billion) and Murabaha assets amounting to AED 2.2 billion (2016: 1.5 billion) were securitized for the purpose of issuance of Sukuk (refer Note 13).

9 INVESTMENT PROPERTIES

	Land AED '000	Building AED '000	Work-in-progress AED '000	Total AED '000
Cost				
Balance as at 1 January 2017	375,895	333,719	8,230	717,844
Additions	133	-	-	133
Balance at 31 December 2017	**376,028**	**333,719**	**8,230**	**717,977**
Accumulated depreciation				
Balance as at 1 January 2017	-	(72,218)	-	(72,218)
Charge during the year	-	(12,021)	-	(12,021)
Relating to disposals	-	-	-	-
Total accumulated depreciation	-	**(84,239)**	**-**	**(84,239)**
Accumulated impairment				
Balance as at 1 January 2017	(27,849)	(142,947)	-	(170,796)
Total accumulated impairment	(27,849)	(142,947)	-	(170,796)
Balance as at 31 December 2017	**(27,849)**	**(227,186)**	**-**	**(255,035)**
Net Book Value at 31 December 2017	**348,179**	**106,533**	**8,230**	**462,942**

	Land AED '000	Building AED '000	Work-in-progress AED '000	Total AED '000
Cost				
Balance as at 1 January 2016	375,513	800,099	8,230	1,183,842
Additions	382	-	-	382
Disposals	-	(466,380)	-	(466,380)
Balance at 31 December 2016	**375,895**	**333,719**	**8,230**	**717,844**
Accumulated depreciation and impairment				
Balance as at 1 January 2016	-	(172,425)	-	(172,425)
Charge during the year	-	(23,415)	-	(23,415)
Relating to disposals	-	123,622	-	123,622
Total accumulated depreciation	-	**(72,218)**	-	**(72,218)**
Accumulated impairment				
Balance as at 1 January 2016				
Reversal of impairment	(27,849)	(177,632)	-	(205,481)
Total accumulated impairment	-	34,685	-	34,685
	(27,849)	**(142,947)**	-	**(170,796)**
Balance as at 31 December 2016	**(27,849)**	**(215,165)**	**-**	**(243,014)**
Net Book Value at 31 December 2016	**348,046**	**118,554**	**8,230**	**474,830**

All investment properties are located within the United Arab Emirates.

The fair value of investment properties as at 31 December 2017 is not materially different from their carrying value.

10 OTHER ASSETS

	2017 AED '000	2016 AED '000
Dividend and profit receivable	17,600	6,052
Overdraft accounts (profit free)	53,811	33,435
Prepayments	51,867	55,324
Deferred sales commission	27,251	43,353
Goods available-for-sale	274,741	264,915
Others	77,932	114,188
	503,202	**517,267**

11 DUE TO BANKS

	2017 AED '000	2016 AED '000
Current Accounts	17,470	14,022
Overdrafts	2,148	1,605
Interbank obligations – Other banks	457,527	183,625
Wakala Deposits from Group Holding Company	3,097,589	151,959
Other balances from Group Holding Company & its subsidiaries	1,711,451	1,456,707
	5,286,185	**1,807,918**
Due to banks are concentrated as follows:		
Due to local banks	5,065,745	1,622,688
Due to foreign banks	220,440	185,230
	5,286,185	**1,807,918**

12 CUSTOMERS' ACCOUNTS

	2017 AED '000	2016 AED '000
Current accounts	16,740,621	16,803,227
Saving accounts	10,972,126	10,179,886
Investment accounts	3,631,069	4,252,457
Wakala accounts	9,897,583	9,441,448
Margins	581,051	453,989
	41,822,450	**41,131,007**
By Segment:		
Consumer banking	34,586,532	34,287,138
Corporate banking	7,235,918	6,843,869
	41,822,450	**41,131,007**

13 ASSET SECURITIZATION

a) During 2012, the Group issued sukuk amounting to AED 3.7 billion. Further sukuk issuance of AED 3.7 billion was made during the year 2016 to raise US Dollar denominated medium term finance via a Sharia'a compliant sukuk financing arrangement. As at December 2017, the total outstanding sukuk payable is AED 5.5 billion.

Following are the details of all the sukuk financing arrangement in issue.

Amount (USD)	Listing	Profit rate (%)	Payment basis	Maturity
500,000,000	London Stock Exchange	4.140	Semi annual	January 2018
750,000,000	Irish Stock Exchange & Nasdaq	3.542	Semi annual	May 2021
250,000,000	Irish Stock Exchange & Nasdaq	3.542	Semi annual	May 2021

The Bank transferred certain identified Ijara and Murabaha assets totaling to AED 7.4 billion (the "co-owned assets") to its subsidiary, EIB Sukuk company limited – (the "Issuer"), a special purpose vehicle formed for the issuance of these sukuk. This medium term finance is carried at amortised cost.

In substance, the co-owned assets remain in control of the Group; accordingly, these assets continue to be recognised by the Group. In case of any default, the Group Holding Company has provided an undertaking to make good all losses to the sukuk holders. The assets are in the control of the Group and shall continue to be serviced by the Group.

The Issuer will pay a semi-annual distribution amount from returns received in respect of the co-owned assets. Such proceeds are expected to be sufficient to cover the semi-annual distribution amount payable to the sukuk holders on the semi-annual distribution dates. Upon maturity of the sukuk, the Group has undertaken to repurchase the assets at the exercise price.

Following is the movement in Sukuk payable:

	31 December 2017 AED '000	31 December 2016 AED '000
Balance as at 1 January	7,368,138	3,672,500
New issue	-	3,696,948
Sukuks matured	(1,836,250)	-
Premium amortization	(5,239)	(1,310)
Balance at end of the year	**5,526,649**	**7,368,138**

b) On 15 May 2015, EI Funding Limited (the "SPE") was incorporated under Companies Law of Cayman Islands as a Special Purpose Entity. The principal activities of the company are to purchase portfolio of assets through issuance of notes. The securitization will result in a certificate pool that will be listed on the NASDAQ clearing system (off market) for private-purpose, over-the-counter dealing. The underlying Sharia structure has been approved by the Bank's Sharia Supervisory Board.

The Bank has transferred part of its investment portfolio to EI Funding Limited (incorporated under Cayman Islands laws). However, the Group retains control over the transferred assets and hence the Group continues to recognize these assets as financing and the investment assets.

14 PAYABLES AND OTHER LIABILITIES

	2017 AED '000	2016 AED '000
Customers' share of profit payable	120,376	175,284
Provision for employee benefits	151,684	150,762
Manager Cheques	157,068	205,317
Trade payables	72,544	199,668
Property related liabilities	183,706	180,528
Others	581,986	509,603
	1,267,364	**1,421,162**

15 SHARE CAPITAL

	2017 AED '000	2016 AED '000
Authorized Share Capital		
10,000,000,000 (2016: 10,000,000,000) ordinary shares of AED 1 each (2016: AED 1 each)	**10,000,000**	**10,000,000**
Issued and fully paid up capital		
5,430,422,000 (2016: 5,430,422,000) ordinary shares of AED 1 each (2016: AED 1 each)	**5,430,422**	**5,430,422**

16 RESERVES

Legal and statutory reserves

In accordance with the Bank's Articles of Association, Article (82) of Union Law no. 10 of 1980 and Federal Commercial Companies Law, the Bank transfers 10% of Shareholders' net profit for the year, if any, to the statutory reserve until such reserve equals 50% of the paid-up share capital. This reserve is restricted and is not available for distribution.

General reserve

A further 10% of shareholders' net profit for the year, if any, is transferred to the general reserve until it reaches 10% of the paid-up capital. This transfer may be suspended by an ordinary General Meeting, based on Board of Directors' recommendation. The Board of Directors proposes the use of the general reserve at its discretion.

Fair value reserve

Fair value reserve includes the net change in fair value of available-for-sale financial assets.

17 CONTINGENCIES AND COMMITMENTS

a) The Bank provides letters of guarantee and letters of credit to meet the requirements of its customers. These commitments have fixed limits and expirations, and are not concentrated in any period, and are arising in the normal course of business, as follows:

	2017 AED '000	2016 AED '000
Letters of guarantee	5,820,978	5,783,696
Letters of credit	909,585	1,187,671
Liability on risk participation	119,992	96,181
Irrevocable financing commitments (refer below)	3,713,058	2,543,949
Capital expenditure commitments	35,973	128,716
Commitments in respect of operating lease	5,861	2,190
	10,605,447	**9,742,403**
Commitments in respect of operating lease		
Less than one year	3,948	2,190
Between one and five years	1,913	-
	5,861	**2,190**

b) Acceptances

Under IAS 39, acceptances are recognised in Group consolidated statement of financial position with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

Irrevocable financing commitments represent a contractual commitment to permit draw downs on a facility within a defined period subject to conditions precedent and termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent exact future cash requirements.

Capital commitments are on account of certain IT related projects and branches.

18 INCOME FROM FINANCING AND INVESTING ACTIVITIES

	2017 AED '000	2016 AED '000
Murabaha	1,238,041	1,517,834
Ijarah	579,178	583,184
Istisna'a	75,308	41,250
Financing wakala	24,308	18,195
Mudaraba	43,983	4,808
Others	122,601	60,063
	2,083,419	**2,225,334**

19 CUSTOMERS' SHARE OF PROFIT AND DISTRIBUTION TO SUKUK HOLDERS

	2017 AED '000	2016 AED '000
Customer accounts	(288,438)	(286,491)
Sukuk issued	(203,810)	(228,024)
	(492,248)	**(514,515)**

The distribution of profit between unrestricted account holders (investment, saving and wakala accounts) and shareholders is made, quarterly, in accordance with the method approved by the Bank's Fatwa and Sharia Supervisory Board.

20 FEES AND COMMISSION INCOME

	2017 AED '000	2016 AED '000
Commission income	105,313	110,262
Fee income	420,413	418,938
Brokerage Fees	21,624	27,103
Portfolio and other management fees	2,035	3,059
	549,385	**559,362**
Less: Commissions and fees paid	(71,679)	(78,759)
	477,706	**480,603**

21 INCOME FROM INVESTMENT SECURITIES

	2017 AED '000	2016 AED '000
Realised gain on sale of available for sale investments	84,087	14,370
Dividend Income	14,471	12,147
Income on available-for-sale investments	34,680	42,202
Income on held-to-maturity investments	945	5,877
	134,183	**74,596**

22 OTHER OPERATING INCOME

	2017 AED '000	2016 AED '000
Gain on sale of investment properties (note 9)	-	91,546
Property related income	25,343	53,509
Depreciation of investment properties (note 9)	(12,021)	(23,415)
Foreign exchange gains and losses	147,855	132,189
Others	28,056	(24,966)
	189,233	**228,863**

23 GENERAL AND ADMINISTRATIVE EXPENSES

	2017 AED '000	2016 AED '000
Occupancy cost	(102,883)	(112,962)
Equipment & supplies	(24,660)	(27,692)
Information technology cost	(5,687)	(10,310)
Communication cost	(29,263)	(28,065)
Service, legal and professional fees	(10,789)	(13,000)
Marketing related expenses	(20,247)	(18,261)
Others	(202,735)	(161,032)
	(396,264)	**(371,322)**

24 ALLOWANCES FOR IMPAIRMENT, NET OF RECOVERIES

	2017 AED '000	2016 AED '000
Financing and investing receivables		
Allowances made during the year (note 8)	(1,007,683)	(1,960,763)
Provision written back/ recoveries (note 8)	280,513	591,073
Recoveries on bad debts	82,031	161,011
	(645,139)	(1,208,679)
Investments		
Allowances made during the year (note 7)	(41,272)	(128,140)
Reversal (Note 7)	5,630	3,771
	(35,642)	(124,369)
Investment properties		
Reversal	-	34,685
	-	34,685
	(680,781)	**(1,298,363)**

25 DIRECTORS' FEE

Sitting fees, amounting to AED 4,060,000 (2016: AED 2,500,000) was paid and charged to the Group consolidated statement of income.

26 EARNINGS PER SHARE

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders (further adjusted for deduction of the distributed profit on tier I capital notes) of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

	2017 AED '000	2016 AED '000
Net profit for the year	701,998	105,632
Weighted average no of shares outstanding during the year (000's)	5,430,422	3,938,641
Earnings per share (AED)	**0.129**	**0.027**

The diluted and basic earnings per share were the same as of 31 December 2017 and 2016.

27 CASH AND CASH EQUIVALENTS

	2017 AED '000	2016 AED '000
Cash in hand (note 5)	367,632	263,571
Current account with U.A.E Central Bank (note 5)	1,758,279	1,375,258
Murabaha with U.A.E Central Bank	4,950,804	2,750,143
Due from banks	9,308,073	4,004,152
Due to banks	(4,903,331)	(1,570,220)
	11,481,457	**6,822,904**

28 RELATED PARTY TRANSACTIONS

The Group is owned by ENBD (99.9%), which is partially owned by the Investment Corporation of Dubai (55.8%). The Government of Dubai is the major shareholder in ICD.

Customer accounts from and financing to Government related entities other than those that have been individually disclosed amount to 14 % and 2.4% (2016: 5.8% and 2.0%) of the total customers' accounts and financing receivables of the Group, respectively.

These entities are independently run business entities, and all the financial dealings with the Group are on normal commercial terms.

The Group has also entered into transactions with certain other related parties who are non-government related entities. Such transactions were also made on substantially the same terms, including profit rates and collaterals, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party balances and transactions are carried out on normal commercial terms and are as follows:

	2017 AED '000	2016 AED '000
Group consolidated statement of income		
Income from Group Holding Company	137,101	184,047
Financing receivables and investments		
Financing receivables - Ultimate Parent Company	75,620	183,650
Investment in Ultimate Parent Company	30,414	15,191
Financing receivables - Directors & affiliates	375	149
Financing receivables - Key management personnel & affiliates	22,095	41,260
Investment in Government of Dubai	-	207,873
Due to/ from Group holding company and subsidiaries		
Due from Group Holding Company & subsidiaries (note 6)	3,884,569	3,751,041
Due to Group Holding Company & subsidiaries (note 11)	(4,809,040)	(1,608,666)
Due from Dubai Bank PJSC (note 6)	1,281,607	1,179,398
Customer accounts and deposits		
Deposits from Ultimate Parent Company	(965,043)	(835,628)
Current and Investment accounts - Directors	(375)	(760)
Current and Investment accounts - Key management personnel & affiliates	(5,989)	(38,300)
Key management compensation		
Key management personnel compensations	(18,145)	(24,172)
Key management personnel compensations - retirements benefits	(540)	(385)

28 RELATED PARTY TRANSACTIONS (continued)

Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

No impairment losses have been recorded against balances outstanding during the year with key management personnel and their immediate relations at the year end. As explained in note 4, the Group has acquired certain assets and liabilities from Dubai Bank PJSC, a subsidiary of the Group Holding Company.

29 OPERATING SEGMENTS

The Group's activities comprise the following main business segments:

Corporate banking
Within this business segment, the Bank provides to corporate customers a range of products and services and accepts their deposits.

Consumer banking
Consumer banking represents retail financing and deposits, private banking and wealth management and equity broking services.

Treasury
Treasury activities comprises of managing the Group's portfolio of investments, funds management, and interbank treasury operations.

Others
Other operations of the Group include operations and support functions.

EMIRATES ISLAMIC BANK PJSC

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

29 OPERATING SEGMENTS (continued)

	Corporate		Retail		Treasury		Support		Total	
	2017 AED'000	**2016 AED'000**	**2017 AED'000**	**2016 AED'000**	**2017 AED'000**	**2016 AED'000**	**2017 AED'000**	**2016 AED'000**	**2017 AED'000**	**2016 AED'000**
Group consolidated statement of income										
Segment income	436,050	371,350	1,545,943	1,591,768	(58,039)	310,295	159,465	-	2,083,419	2,273,413
Customers' share of profit and distribution to sukuk holders	(87,934)	(64,638)	(197,550)	(217,052)	(206,764)	(232,825)	-	-	(492,248)	(514,515)
Net financing income	**348,116**	**306,712**	**1,348,393**	**1,374,716**	**(264,803)**	**77,470**	**159,465**		**1,591,171**	**1,758,898**
Commission, fees & other income	152,399	285,156	528,725	450,374	228,704	453	(108,706)	-	801,122	735,983
Total operating income	**500,515**	**591,868**	**1,877,118**	**1,825,090**	**(36,099)**	**77,923**	**50,759**	**-**	**2,392,293**	**2,494,881**
General and administrative expenses	(88,584)	(106,754)	(661,928)	(745,676)	(13,808)	(8,214)	(245,194)	(230,242)	(1,009,514)	(1,090,886)
Total expenses	**(88,584)**	**(106,754)**	**(661,928)**	**(745,676)**	**(13,808)**	**(8,214)**	**(245,194)**	**(230,242)**	**(1,009,514)**	**(1,090,886)**
Net operating income	**411,931**	**485,114**	**1,215,190**	**1,079,414**	**(49,907)**	**69,709**	**(194,435)**	**(230,242)**	**1,382,779**	**1,403,995**
Allowances for impairment, net of recoveries	(19,748)	(272,932)	(644,306)	(1,025,431)	(16,727)	-	-	-	(680,781)	(1,298,363)
NET PROFIT/ (LOSS) FOR THE YEAR	**392,183**	**212,182**	**570,884**	**53,983**	**(66,634)**	**69,709**	**(194,435)**	**(230,242)**	**701,998**	**105,632**

During the year 2017, below changes within operating segments were carried out:

a) Business activities were re-aligned between Corporate and Treasury
b) Implementation of new internal funds transfer pricing mechanism to assess segment performance

29 OPERATING SEGMENTS (continued)

	Corporate		Retail		Treasury		Support		Total	
	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000	2017 AED'000	2016 AED'000
Group consolidated statement of financial position										
Assets										
Segment assets	14,748,247	16,976,033	24,679,529	26,848,946	21,984,963	15,403,210	468,625	-	61,881,364	59,228,189
Liabilities										
Segment liabilities and equity	7,464,961	7,899,837	36,484,489	35,371,278	10,449,743	9,268,299	7,482,171	6,688,775	61,881,364	59,228,189

During the year 2017, below changes within operating segments were carried out:

c) Business activities were re-aligned between Corporate and Treasury
d) Implementation of new internal funds transfer pricing mechanism to assess segment performance

30 RISK MANAGEMENT

Risk management framework

The Group manages identification, measurement, aggregation and effective management of risk through a comprehensive risk management framework which incorporates organizational structure, risk measurement and monitoring processes.

The key features of the Group's risk management framework are:

- The Board of Directors ("the Board") has the overall responsibility for the establishment and oversight of the Group's risk management framework;
- The Group's risk appetite is determined by the Executive Committee (EXCO) and approved by the Board;
- Board committees meet regularly and are responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework;
- Reporting any policy or major practice changes, unusual situations, significant exceptions and new strategies to the Board of Directors for review, approval and/or ratification through various Board Committees; and
- The Group's overall risk management process is managed by the Group risk management function operating under its Chief Risk Officer ("CRO") with oversight function exercised by the ENBD Group Risk's CRO. This function is independent of the business divisions.

Group Risk assists senior management in controlling and actively managing the Group's overall risk profile. This function also ensures that:

- Risk policies, procedures and methodologies are consistent with the Group's risk appetite;
- The Group's overall business strategy is consistent with its risk appetite; and
- Appropriate risk management architecture and systems are developed and implemented.

Risk management process

Through the risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations, are escalated to the management for appropriate and timely action.

a) Credit Risk

Credit is the risk that a customer or counterparty will fail to meet a commitment, thereby resulting in financial loss to the Group. Credit risk also captures 'Credit Concentration risk' and 'Settlement risk', which is the risk of a counterparty failing to deliver on a financial markets transactions at settlement, and 'Residual risk', which arises from an insufficient ability to realize collaterals later.

Credit risk management and structure

The approach to credit risk management is based on the foundation of preserving the independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures in the business segments.

The Group's credit policy managed by Group Risk focuses on the core credit principles and details specific policy guidelines, financing parameters, sharia guidelines, control and monitoring requirements, problem finance identification, management of high risk customers and provisioning.

The Board of Directors (BOD) has delegated authority to the Board Credit and Investment Committee ("BCIC") Management Credit and Investment Committee ("MCIC") and CEO to facilitate and effectively manage the business. However, the Board and the BCIC retain the ultimate authority to approve credits above MCIC authority.

30 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

The following general guidelines are followed for account classification into non-impaired and impaired credits:

Normal Credits

- Financings which bear normal banking risk, whereby information available to the bank assures repayment as agreed are classified as “Normal credits”.

Watch list credits

- Financings which show some weaknesses in the obligor’s financial condition and credit worthiness, requiring more than normal attention but not allocation of provisions are classified as “Watch-list credits”.

Impaired credits

i. Those accounts where adverse factors may hinder repayment or weaken security or lead to some loss are classified as "Substandard credits". In general, these are credit exposures where agreed payments of principal and/or profit are more than 90 consecutive days in arrears.

ii. Those accounts where full recovery of profit and principal seems doubtful on the basis of information available, leading generally to a loss of part of these financings are classified as "Doubtful credits".

iii. Those accounts where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing shall be recovered are classified as "Loss credits".

Management of corporate credit risk

The process of managing corporate credit risk is as follows:

- Corporate credit risk appetite is set as per the risk strategy approved at the Board Risk Committee;

- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers, amongst other things, the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends, customer’s creditworthiness and standing within the industry;

- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals, maintenance of documentation and proactive controls over maturities, expiry of limits and collateral valuations;

- Obligor risk grading - Internal rating models are used across various business segments to assess credit quality of the obligors and assign risk grades on the rating Master scale. All obligors are mapped to risk grades based on their probability of default. Highest credit quality customers have the lowest probability to default. These internal risk grades are mapped to Central Bank of the UAE categorization on a scale of 1 to 5; and

- Management of Impaired Non Performing Financings (NPF) and Watch List (WL) accounts - The Group has a well-defined process for identification of NPF & WL accounts and dealing with them effectively. This includes identification of delinquent accounts and controls applicable for close monitoring. Policies on profit suspension and provisioning are strictly adhered to be in line with UAE Central Bank guidelines. The Group’s Remedial Unit manages the problem commercial credit facilities. However, a specialized team in the Group Holding Company “Financial Restructuring and Remedial” team also supports the management and collection of some of the problem commercial credit facilities.

30 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

Management of consumer credit risk

- Consumer credit risk appetite is set as per the risk strategy approved at the Board Risk Committee;
- The Risk unit approves retail credit policies within the risk appetite set and monitors compliance. All new products are evaluated against approved policy guidelines. The evaluation takes into account the risk versus reward dynamics. Policies are reviewed and updated on a regular basis to ensure that current market trends and portfolio performance are considered on a timely basis;
- Retail financing is granted under approved credit policies for each product. Every application needs to meet the laid down criteria as per the credit policies. Exception, if any, are approved by staff having delegated authority after reviewing the mitigant proposed for these exceptions;
- Risk grading – The risk grade of an account reflects the associated risks measured by the delinquency history and application and behavior probability of defaults ("PDs"); and
- Management of delinquent accounts – Delinquent accounts are monitored closely to ensure the Bank's asset quality is protected. Differential collections strategies are drawn out and higher risk accounts are subject to an accelerated collections strategy.

Credit risk monitoring

Risks of the Group's credit portfolio is continuously assessed/ monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

The Group's exposures are continuously monitored through a system of triggers and early warning signals. These are supplemented by monitoring of account conduct, assessment of collateral and market intelligence and early alerts.

Early Alerts

Early Alert accounts are identified based on oversight, vigilance and risk triggers. Account strategy and action plans on these accounts are regularly monitored and discussed in the Early Alert Committee meetings.

Risks of the Group's financing portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

Group credit risk mitigation strategy

The Group operates within prudential exposure ceilings set by the Board in line with UAE Central Bank guidelines. There are well laid out processes for exception management.

Portfolio diversification is the basis of the Group's credit risk mitigation strategy. Diversification is achieved by setting customer, industry and geographical limits. The risk transfer in the form of syndicated financings with other banks, where appropriate, is entered into to limit the Group exposure.

30 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

Analysis by economic activity for assets

	2017		2016	
	Financing receivables AED '000	Others AED '000	Financing receivables AED '000	Others AED '000
Management of companies and enterprises	185,477	-	231,221	-
Manufacturing	1,259,863	-	1,259,198	-
Construction	1,103,406	-	1,605,317	101,560
Trade	5,361,620	-	5,080,275	-
Hotels and restaurants	70,689	-	76,142	-
Transportation and communication	327,487	-	410,543	-
Services	1,118,480	57,398	1,572,426	58,269
Sovereign	103,968	-	67,621	145,767
Personal	22,574,864	-	25,177,850	-
Real estates	4,994,914	899,896	5,197,010	766,923
Financial institutions	1,264,739	12,349,854	518,269	8,944,670
Others	1,384,673	312,714	1,398,333	14,515
Total	39,750,180	13,619,862	42,594,205	10,031,704
Less: Deferred income	(2,369,625)	-	(2,753,333)	-
Less: Allowances for impairment	(3,545,158)	(629,268)	(3,498,304)	(797,297)
Net Carrying Value	**33,835,397**	**12,990,594**	**36,342,568**	**9,234,407**

Gross maximum exposure:

The table below shows the maximum exposure to credit risk for the components of the Group consolidated statement of income. The maximum exposure is shown gross, before the effect of use of master netting and collateral agreements.

	2017 AED '000	2016 AED '000
Balances with UAE Central Bank	12,890,952	11,399,231
Due from banks	11,182,044	7,755,193
Financing and investing receivables	33,835,397	36,342,568
Investments	1,808,550	1,479,214
Other assets	71,411	39,487
Total	**59,788,354**	**57,015,693**
Contingent liabilities	6,730,563	6,971,367
Total credit risk exposure	**66,518,917**	**63,987,060**

30 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

Classification of investment securities as per their external ratings:

As at 31 December 2017

Ratings	Held-to-maturity investment securities AED '000	Available-for-sale investment securities AED '000	Total AED '000
AAA	-	14,503	14,503
A- to A+	-	237,442	237,442
Lower than A-	-	729,799	729,799
Unrated	9,073	817,733	826,806
	9,073	**1,799,477**	**1,808,550**

Of which issued by:

	Held-to-maturity investment securities AED '000	Available-for-sale investment securities AED '000	Total AED '000
Governments	-	254,239	254,239
Public sector enterprises	-	631,021	631,021
Private sector and others	9,073	914,217	923,290
	9,073	**1,799,477**	**1,808,550**

30 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

As at 31 December 2016

Ratings	Held-to-maturity investment securities AED '000	Available-for-sale investment securities AED '000	Total AED '000
AAA	-	14,514	14,514
A- to A+	91,813	382,879	474,692
Lower than A-	-	311,294	311,294
Unrated	12,623	666,091	678,714
	104,436	**1,374,778**	**1,479,214**

Of which issued by:

	Held-to-maturity investment securities AED '000	Available-for-sale investment securities AED '000	Total AED '000
Governments	-	138,701	138,701
Public sector enterprises	-	175,013	175,013
Private sector and others	104,436	1,061,064	1,165,500
	104,436	**1,374,778**	**1,479,214**

30 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

Credit quality analysis:

The credit quality of financial assets is managed by the Group. The table below shows the credit quality by class of financial assets, based on the Groups credit rating policy.

2017		Of which neither impaired nor past due on reporting date			Of which past due but not impaired on the reporting date				Of which individually impaired		
	Carrying amount	Low/ Fair risk	Watch list	Re-negotiated terms	< 30 days	30-60 days	61-90 days	> 90 days	Carrying amount	Allowance for impairment	Gross amount
	AED '000										
Due from banks and Group Holding Company	11,182,044	11,182,044	-	-	-	-	-	-	-	-	-
Financing receivables:											
Consumer	20,769,123	19,351,542	-	-	836,704	276,017	92,165	-	212,695	309,782	522,477
Corporate	13,066,274	10,479,312	-	945,148	308,800	222,525	98,581	274,902	737,006	2,584,587	3,321,593
	33,835,397	29,830,854	-	945,148	1,145,504	498,542	190,746	274,902	949,701	2,894,369	3,844,070
Investments:											
Sukuks	1,259,035	1,259,144	-	-	-	-	-	-	(109)	100,995	100,886

30 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

Credit quality analysis (continued)

2016		Of which neither impaired nor past due on reporting date			Of which past due but not impaired on the reporting date				Of which individually impaired		
	Carrying amount	Low/ Fair risk	Watch list	Re-negotiated terms	< 30 days	30-60 days	61-90 days	> 90 days	Carrying amount	Allowance for impairment	Gross amount
	AED '000										
Due from banks and Group Holding Company	7,755,193	7,755,193	-	-	-	-	-	-	-	-	-
Financing receivables:											
Consumer	22,911,748	20,291,029	-	-	1,730,440	278,900	201,823	-	409,556	188,460	598,016
Corporate	13,430,820	10,074,078	196,543	807,048	737,485	567,131	149,482	351,407	547,646	2,464,568	3,012,214
	36,342,568	30,365,107	196,543	807,048	2,467,925	846,031	351,305	351,407	957,202	2,653,028	3,610,230
Investments:											
Sukuks	823,130	810,507	-	-	-	-	-	-	12,623	106,625	119,248

30 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

Classification of financing and investing receivables

Obligor risk grading - Internal rating models are used across various business segments to assess credit quality of the obligors and assign risk grades on the Master rating scale ("MRS") on an ongoing basis. All obligors are mapped to risk grades based on their probability of default. Highest credit quality customers have the lowest probability to default. These internal risk grades are mapped to Central Bank of the UAE categorization on a scale of 1 to 5 mentioned below;

The following are general guidelines for account classification into non-impaired and impaired:

Normal finances (Grades 1a to 4d)

Financing and investing receivables which bear normal banking risk, whereby information available to the bank assures repayment as agreed are classified as "Normal finances";

Watch-list finances (Grades 4e to 5a)

Financing and investing receivables which show some weaknesses in the obligor's financial condition and credit worthiness, requiring more than normal attention but not allocation of provisions are classified as "Watch-list finances";

Impaired finances (Grades 5b to 5d)

Those accounts where adverse factors may hinder repayment or weaken security or lead to some loss are classified as "Substandard accounts". In general, these are credit exposures where agreed payments of principal and/or profit are more than 90 consecutive days in arrears;

Those accounts where full recovery of profit and principal seems doubtful on the basis of information available, leading generally to a loss of part of these finances are classified as "Doubtful accounts"; and

Those accounts where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing shall be recovered are classified as "Loss accounts".

Islamic Financing Receivables

	2017 AED '000	**2016 AED '000**
Corporate – Performing	12,769,647	13,365,826
Consumer – Performing	20,766,838	22,864,816
Impaired financing	3,844,070	3,610,230
Gross financing	37,380,555	39,840,872

Financing with renegotiated terms

Financing with renegotiated terms are those credits, where the repayment plan has been revised to align with the changed cash flows of the obligor with no other concessions by way of reduction in the amount or profit, but in some instances with improved security. These financings are treated as standard credits and continue to be reported as normal credits in the renegotiated financings category.

30 RISK MANAGEMENT (continued)

Risk management process (continued)

a) Credit Risk (continued)

Past due but not impaired
Exposures where contractual profit or principal payment are past due for more than 90 days but based upon individual assessment, that the impairment is not appropriate considering the obligor's ability to pay, past track record, overall exposure levels, materiality of the past due, types of collaterals, quality of the obligor's receivables and the stage of collection of the amounts owed to the Group. Amounts that were past due and settled in a short period after the balance sheet date have been excluded.

Definition of impaired financial assets

A counterparty is impaired if:

a) In case of corporate exposures, the Group considers the counterparty unlikely to pay due to one of the following conditions:

- A material credit obligation has been put on non-accrual status;
- Distressed restructuring of a credit obligation;
- Selling of a credit obligation at an economic loss; and
- The Group or a third party has filed for the counterparty's bankruptcy.

b) In case of retail, if the exposure is past due for more than 90 days, it is considered to be impaired.

Impairment assessment
The asset portfolio is reviewed on an ongoing basis for impairment. The accrual or non-accrual status of the asset is re-assessed and appropriately risk graded as per credit policy. Impaired assets are classified as such and reported at least on quarterly intervals to the Board sub committees.

Assessment of specific impairment

Corporate Exposure: The Group determines impairment appropriate for each financing by exercising mature judgment in line with Central Bank of the UAE and IFRS requirements. The Group classifies those accounts where recovery is considered doubtful and ensures impairment is made accordingly. The impairment losses are evaluated on an ongoing basis. Specific impairment is assessed when an exposure shows a significant perceived decline in the credit quality or when an obligation is past due or over-limit for more than 90 days. Impaired accounts are classified as Substandard, Doubtful or Loss.

Retail Exposure: Criteria for provisions are based on products, namely, credit cards and other retail financings. All retail financings are classified as non-performing after 90 days and provisions are made in line with the Group's income and loss recognition policies.

Assessment of collective impairment

Provisions for collective impairment are made based on the IFRS and Central Bank of the UAE guidelines. Impairments that cannot be identified with an individual financing are estimated on a portfolio basis.

Collateral management:

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed.

Where credit facilities are secured by collateral, the Group seeks to ensure the enforceability of the same.

Collaterals are revalued regularly as per the policy as a general rule. However, periodic valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered.

30 RISK MANAGEMENT (continued)

Risk management process (continued)

b) Market risk

Market risk is the potential for adverse changes in the market value of portfolio and positions due to fluctuations in profit rates, exchange rates, equity prices, commodity prices, as well as in their correlation and implied volatility. Consistent with the Group's approach to strict compliance with Sharia rules and principles, the Group does not involve in speculative foreign exchange transactions.

The Group's market risk is managed through risk limits set by the ALCO and approved by the Board of Directors. Risk limits are reviewed by the ALCO on an annual basis and are monitored independently by the Market Risk unit on a regular basis, and exceptions, if any, are reported to senior management.

Value-at-Risk

To better capture the multi-dimensional aspects of market risk, the Group's primary market risk metric is a statistical one, Value-at-Risk, which is used for short-term risk holding periods. VaR metrics are calculated daily for the specific asset classes, such as Profit Rate VaR, Foreign Exchange VaR and Total VaR.

i. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is not significantly exposed to currency risk since the majority of the assets and liabilities of the Group are denominated predominately in either AED or in USD-pegged currencies from other GCC countries.

ii. Price risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale) due to reasonably possible change in equity indices, with all other variables held constant, is as follows:

	31 December 2017			31 December 2016		
	% Change in market indices	Effect on net profit AED' 000	Effect on OCI AED' 000	% Change in market indices	Effect on net profit AED' 000	Effect on OCI AED' 000
Equity	10	-	3,315	10	-	5,423
Sukuk	10	-	124,996	10	-	71,869

c) Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes and systems, human error or external events. It thus excludes strategic and reputation risks but includes legal and regulatory risks. The Group has standard policies and procedures for managing each of its divisions, departments and branches so as to minimize losses through a framework to ensure compliance with the Basel II requirements. All related policies are subject to review and approval by the Board of Directors.

The Group manages operational risk through disciplined application and evaluation of internal controls, appropriate segregation of duties, independent authorization of transactions and regular, systematic reconciliation and monitoring of transactions. This control structure is complemented by independent and periodic reviews by the Bank's internal audit department.

30 RISK MANAGEMENT (continued)

Risk management process (continued)

c) Operational risk (continued)

The Group has set up the Group operational risk function within Group Risk to establish the framework and governance structure set out in the operational risk policy. This function develops and implements the methods for the identification, assessment and monitoring of operational risks throughout the Group and provides regular and comprehensive reporting on operational risks to senior management. The function supports business and other support units to monitor and manage their individual operational risks.

Furthermore, the Group operational risk function also provides analysis and reports on operational risks to senior management and conducts independent oversight and monitoring of risks and mitigating measures.

The governance structure of operational risk is regulated through the Operational Risk and Compliance Committee ("ORCC"). The ORCC reviews the Group's operational risks on a periodic basis, and the effectiveness of existing controls to mitigate these risks. The ORCC reports to EXCO and requires senior management involvement from every unit and major entity of the Group.

The Group has implemented the following processes to proactively monitor and manage operational risks:

- Assessment of any operational risk of a new or amended product or process prior to its implementation. This enables identification and mitigation of operational risks prior to the introduction of new products, processes, systems or any major change initiatives;
- Identification of inherent and residual risks across all units and entities of the Group and assessment of control efficiencies and estimation of probabilities and potential impact of the operational risks. The identified risks are monitored and reassessed frequently by the line management;
- The internal loss data collection process enables an effective and efficient management of the risk, i.e. analyzing the root cause, improving controls and mitigating the loss potential. The responsibility for the identification of and notification on operational risk events lies with the line managers of the business and support units;
- IT Security processes ensure confidentiality, integrity and availability of Group's information, information systems and its resources through the selection and application of appropriate safeguards. The Holding Company's operational risk function ensures that security processes are integrated with strategic and operational planning processes at the Group;
- A comprehensive insurance program is in place as an integral component of the Group's operational risk mitigation strategy; and
- The Group Business Continuity Management (BCM) policy enables the implementation of measures to protect the Group's resources and maintain the availability of business operations in the event of a disaster.

d) Liquidity risk

The risk that an entity may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk management

To guard against this risk, the Group has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents. Liquidity is managed by the Treasury department under guidance from the ALCO, and is monitored using short-term cash-flow reports and medium-term maturity mismatch reports. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. They do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. The maturity profile of the Group's assets and liabilities is monitored by ALCO to ensure adequate liquidity is maintained.

30 RISK MANAGEMENT (continued)

Risk management process (continued)

d) Liquidity risk (continued)

Liquidity risk monitoring

All funded liquidity risk positions are monitored and evaluated by Group risk to identify mismatches of future cash inflows and corresponding maturity of liabilities over the short term and by major currencies.

The Group ALCO reviews the funding capacity, and its sensitivity to any key event, based on the judgment of Group Treasury that is responsible for maintaining diversified funding sources within capital and money markets.

The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets or aggressive bidding for deposits. The Group's approach to manage the liquidity risk is to ensure that it has adequate funding from diversified sources at all times. The Group ALCO monitors the concentration risk through a combination of indicative triggers (as opposed to prescriptive Limits) that include:

- Depositor concentration;
- Maturity analysis;
- Varied funding programs; and
- Investor diversification.

Liquidity risk mitigation

The ALCO, in conjunction with Treasury is primarily responsible for implementing the liquidity management strategies on structural positions, and maintaining adequate liquidity buffers for possible distress situations. Other business units contribute to overall structural liquidity management through product mix strategies and deposit targets.

The ALCO, in line with the best practices, recognises that users and providers of liquidity as a resource should be incentivized an equitable and transparent manner. This is achieved through the Funds Transfer Pricing (FTP) system which is aligned to charge/compensate for liquidity of the underlying assets or structural nature of underlying liabilities.

30 RISK MANAGEMENT (continued)

Risk management process (continued)

d) Liquidity risk (continued)

MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

2017	Within 3 months AED '000	Over 3 months to 1 year AED '000	Over 1 year to 3 years AED '000	Over 3 years to 5 years AED '000	Over 5 years AED '000	Total AED '000
FINANCIAL ASSETS:						
Cash and balances with UAE Central Bank	11,258,584	2,000,000	-	-	-	13,258,584
Due from banks	10,224,271	-	-	-	957,773	11,182,044
Investments securities	196,470	153,898	193,031	547,343	717,808	1,808,550
Financing and investing receivables	8,452,504	6,261,253	6,826,718	3,008,683	9,286,239	33,835,397
Other financial assets	71,411	-	-	-	-	71,411
TOTAL FINANCIAL ASSETS	**30,203,240**	**8,415,151**	**7,019,749**	**3,556,026**	**10,961,820**	**60,155,986**
FINANCIAL LIABILITIES:						
Due to banks	(3,191,879)	(2,094,306)	-	-	-	(5,286,185)
Customers' accounts	(33,578,441)	(8,049,980)	(191,529)	(2,500)	-	(41,822,450)
Sukuk financing instruments	(1,836,250)	-	-	(3,690,399)	-	(5,526,649)
Other financial liabilities	(356,997)	-	-	-	-	(356,997)
Zakat payable	(52,181)	-	-	-	-	(52,181)
TOTAL FINANCIAL LIABILITIES	**(39,015,748)**	**(10,144,286)**	**(191,529)**	**(3,692,899)**	**-**	**(53,044,462)**
Liquidity surplus/(deficit)	**(8,812,508)**	**(1,729,135)**	**6,828,220**	**(131,873)**	**10,961,820**	**7,111,524**
Cumulative liquidity surplus/(deficit)	**(8,812,508)**	**(10,541,643)**	**(3,713,423)**	**(3,850,296)**	**7,111,524**	
OFF BALANCE SHEET						
Letters of Credit and Guarantees	4,085,610	1,822,898	819,410	2,645	-	6,730,563

30 RISK MANAGEMENT (continued)

Risk management process (continued)

d) Liquidity risk (continued)

MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

2016	Within 3 months AED '000	Over 3 months to 1 year AED '000	Over 1 year to 3 years AED '000	Over 3 years to 5 years AED '000	Over 5 years AED '000	Total AED '000
FINANCIAL ASSETS:						
Cash and balances with UAE Central Bank	8,741,892	2,920,910	-	-	-	11,662,802
Due from banks	5,881,312	-	1,873,881	-	-	7,755,193
Investments Securities	10,910	282,898	293,708	219,970	671,728	1,479,214
Financing and investing receivables	4,572,913	3,120,903	8,460,062	7,823,834	12,364,856	36,342,568
Other financial assets	39,487	-	-	-	-	39,487
TOTAL FINANCIAL ASSETS	**19,246,514**	**6,324,711**	**10,627,651**	**8,043,804**	**13,036,584**	**57,279,264**
FINANCIAL LIABILITIES:						
Due to banks	(1,807,918)	-	-	-	-	(1,807,918)
Customers' accounts	(7,937,907)	(15,093,445)	(18,099,655)	-	-	(41,131,007)
Sukuk financing instruments	(1,836,250)	-	(1,836,250)	(3,695,638)	-	(7,368,138)
Other financial liabilities	(586,151)	-	-	-	-	(586,151)
Zakat payable	(35,139)	-	-	-	-	(35,139)
TOTAL FINANCIAL LIABILITIES	**(12,203,365)**	**(15,093,445)**	**(19,935,905)**	**(3,695,638)**	**-**	**(50,928,353)**
Liquidity surplus/(deficit)	**7,043,149**	**(8,768,734)**	**(9,308,254)**	**4,348,166**	**13,036,584**	**6,350,911**
Cumulative liquidity surplus/(deficit)	**7,043,149**	**(1,725,585)**	**(11,033,839)**	**(6,685,673)**	**6,350,911**	
OFF BALANCE SHEET						
Letters of Credit and Guarantees	5,472,019	526,916	858,695	113,737	**-**	**6,971,367**

الإمارات الإسلامي
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30 RISK MANAGEMENT (continued)

Risk management process (continued)

d) Liquidity risk (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

As at 31 December 2017			Contractual outflows				
	Carrying amount AED '000	Gross nominal outflows AED '000	Within 3 months AED '000	3 months to 1 year AED '000	1 year to 3 years AED '000	3 years to 5 years AED '000	Over 5 years AED '000
Financial liabilities							
Due to banks	(5,286,185)	5,290,538	4,901,618	388,920	-	-	-
Customers' accounts	(41,822,450)	42,075,790	33,763,091	8,116,072	194,042	2,585	-
Sukuk financing instrument	(5,526,649)	5,978,985	1,888,784	99,367	264,134	3,726,700	-
	(52,635,284)	**53,345,313**	**40,553,493**	**8,604,359**	**458,176**	**3,729,285**	**-**

As at 31 December 2016			Contractual outflow				
	Carrying amount AED '000	Gross nominal outflows AED '000	Within 3 months AED '000	3 months to 1 year AED '000	1 year to 3 years AED '000	3 years to 5 years AED '000	Over 5 years AED '000
Financial liabilities							
Due to banks	(1,807,918)	(1,807,918)	(1,807,918)	-	-	-	-
Customers' accounts	(41,131,007)	(41,844,776)	(7,957,752)	(15,244,379)	(18,642,645)	-	-
Sukuk financing instrument	(7,368,138)	(8,179,983)	(1,879,567)	(206,920)	(2,136,059)	(3,957,437)	-
	(50,307,063)	**(51,832,677)**	**(11,645,237)**	**(15,451,299)**	**(20,778,704)**	**(3,957,437)**	**-**

30 RISK MANAGEMENT (continued)

Risk management process (continued)

e) Profit rate risk

Profit rate risk is defined as the exposure of the non-trading products of the Group to profit rates. Non-trading portfolios include all banking book positions that arise from the profit rate on the Group's assets and liabilities, and financial investments designated as available for sale and held to maturity. Profit rate risk arises principally from mismatches between the future yields on assets and their funding costs, as a result of profit rate changes.

For measuring overall profit rate sensitivity, the Group conducts stress tests by simulating parallel shifts to the yield curve(s) ranging from 50 basis points to 200 basis points, and assessing the corresponding impact on its Net financing income.

	31 December 2017		31 December 2016	
	Amount AED 000's	Variance AED 000's	Amount AED 000's	Variance AED 000's
Rates Up 200 bp	2,520,419	211,618	2,660,226	368,960
Base Case	2,308,802	-	2,291,266	-
Rates Down 200 bp	1,928,568	(380,234)	1,937,687	(353,579)

f) Legal risk

The Group has a full-fledged legal function who deal, with both routine and more complex legal cases. Situations of a particular complexity and sensitivity are referred to external firms of lawyers, either in the UAE or overseas, as appropriate.

g) Reputational Risk

Reputational risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. It also includes the threat to the brand value of a financial institution. It also arises due to non-compliance with Sharia Supervisory Board's resolution and fatwas while taking administrative decisions, products or executing financial products contracts.

Reputational risk can arise as a consequence of failures with a strong negative perception of clients, shareholders, creditors or the public. It is possibility of occurrence of damage The Group has controls to ensure a positive perception of the Group.

h) Regulatory & Compliance Risk

Regulatory / Compliance risk is the risk of sanctions and / or financial losses due to the failure to comply with applicable laws, regulations or guidelines.

The Group has independent compliance function, with necessary mandate and authority to enforce compliance on a Group wide basis. This includes active monitoring and reporting on Anti Money Laundering (AML) issues and sanctions. The Group follows the holding company ("ENBD") policy in relation to compliance with the Office of Foreign Assets Control (OFAC) regulations which are in line with international practices and guidelines. The Group maintains a "restricted customer" database which is checked when prospective customers of the Group are initially assessed. This database is linked to the OFAC list of sanctioned individuals as updated from time to time.

30 RISK MANAGEMENT (continued)

Risk management process (continued)

i) Sharia non-compliance risk

Non-compliance with Shari'a Supervisory Board's Resolutions and Fatwas while taking administrative decision, products or executing financial products' contracts, may cause a reputational risk for the Group.

The Group has permanent Shari'a Department to evaluate all existing and proposed solutions prior to presenting it to Shari'a Supervisory Board for approval then to conduct a periodic audit to ensure compliance with Shari'a principles and rules.

31 CAPITAL MANAGEMENT AND ALLOCATION

The Central Bank of UAE supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. The capital is computed at a Group level using the Basel II framework of the Basel Committee on Banking Supervision (‘Basel Committee’), after applying the amendments advised by the Central Bank of UAE, within national discretion. The Basel II framework is structured around three ‘pillars’: minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

Minimum Capital Requirements

As per Basel II capital requirements, the Central Bank of UAE requires the Group to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 12% (of which Tier I to be 8%).

The tiered components of Bank’s regulatory capital comprise of:

- Tier I capital includes share capital, Tier I capital notes, share premium, legal, statutory and other reserves, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and

- Tier II capital includes qualifying subordinated debt, undisclosed reserve, and fair value reserve.

The Group is compliant with the Standardised Approach for Credit, Market and Operational Risk (Pillar I) with effect from 31 December 2007.

The capital adequacy ratio as per Basel II framework is given below:

	2017 AED '000	2016 AED '000
TIER I CAPITAL		
Share capital	5,430,422	5,430,422
Statutory reserve	410,186	339,986
Other disclosed reserves	317,036	245,765
Retained earnings	1,155,615	653,198
Total tier I capital	**7,313,259**	**6,669,371**
TIER II CAPITAL		
Portfolio impairment provisions	650,786	845,276
Fair value reserve	-	19,404
Total tier II capital	**650,786**	**864,680**
Tier II eligible capital	**509,366**	**533,133**
CAPITAL BASE	**7,822,625**	**7,202,504**
RISK WEIGHTED ASSETS		
Credit risk	**40,749,303**	**41,098,300**
Market risk	**21,601**	**14,884**
Operational risk	**4,301,798**	**3,756,966**
Total	**45,072,702**	**44,870,150**
CAPITAL ADEQUACY RATIO (BASEL II)	**17.36%**	**16.05%**

31 CAPITAL MANAGEMENT AND ALLOCATION (CONTINUED)

BASEL III CAPITAL RATIO

The Central Bank of UAE ('CBUAE') issued Basel III capital regulations, which came into effect from 1 February 2017 (parallel reporting for Q2'17 and Q3'17 and Primary reporting from Q4'17 onwards) introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Tier 1 ('T1') and Total Capital.

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

For 2017, CCB is effective in transition arrangement and is required to be maintained at 1.25% of the Capital base. For 2018, CCB will be required at 1.88% and from 2019; it will be required to be maintained at 2.5% of the Capital base. CCyB is not yet in effect and is not required to be maintained at for 2017.

The capital adequacy ratio as per Basel III capital regulation is given below:

Capital Ratio	2017	Minimum capital requirement 2017	Minimum capital requirement by 2019
a. Total	17.36%	11.75%	13%
b. Additional Tier 1 ratio	16.23%	9.75%	11%
c. CET1 ratio	16.23%	8.25%	11%

Internal Audit's role in overall risk management

Internal Audit's reporting lines are independent of management and it reports directly to the Board Audit Committee. It is responsible for providing an independent review of the control environment across the group including all aspects of risk management. The primary objective of Internal Audit is to provide reliable, valued and timely assurance to the Board and Executive Management over the effectiveness of controls to mitigate current and emerging high risks thereby enhancing the control culture within the Group. The Board Audit Committee reviews and approves Internal Audit's plans and resources, and evaluates the effectiveness of Internal Audit. An assessment by external advisers is also carried out periodically.

32 GEOGRAPHICAL DISTRIBUTION OF ASSETS, LIABILITIES AND INCOME

2017	GCC AED '000	Other Middle East AED '000	Europe AED '000	North America AED '000	Asia AED '000	Far East AED '000	Others AED '000	Total AED '000
ASSETS								
Cash and balances with UAE Central Bank	13,258,584	-	-	-	-	-	-	13,258,584
Due from banks	7,792,851	3,475	3,347,638	19,343	2,141	15,377	1,219	11,182,044
Investments securities	1,304,149	8,330	185,704	-	113,897	-	196,470	1,808,550
Financing and investing receivables	33,051,813	351,388	36,725	-	395,390	-	81	33,835,397
Investment properties	462,943	-	-	-	-	-	-	462,943
Customer acceptances	617,349	-	-	-	-	-	-	617,349
Property and equipment	213,295	-	-	-	-	-	-	213,295
Other assets	503,202	-	-	-	-	-	-	503,202
TOTAL ASSETS	**57,204,186**	**363,193**	**3,570,067**	**19,343**	**511,428**	**15,377**	**197,770**	**61,881,364**
LIABILITIES								
Due to banks	41,542,083	45,959	114,837	31,967	41,871	5,661	40,072	41,822,450
Customers' accounts	5,282,435	3,637	101	12	-	-	-	5,286,185
Sukuk financing instruments	5,526,649	-	-	-	-	-	-	5,526,649
Customer acceptances	617,349	-	-	-	-	-	-	617,349
Payables and other liabilities	1,267,364	-	-	-	-	-	-	1,267,364
Zakat payable	52,181	-	-	-	-	-	-	52,181
TOTAL LIABILITIES	**54,288,061**	**49,596**	**114,938**	**31,979**	**41,871**	**5,661**	**40,072**	**54,572,178**
Shareholders' equity	7,309,186	-	-	-	-	-	-	7,309,186
TOTAL EQUITY AND LIABILITIES	**61,597,247**	**49,596**	**114,938**	**31,979**	**41,871**	**5,661**	**40,072**	**61,881,364**
TOTAL INCOME NET OF CUSTOMERS' SHARE OF PROFIT	**2,348,164**	**6,226**	**(127)**	**(116)**	**36,320**	**(6)**	**1,832**	**2,392,293**

32 GEOGRAPHICAL DISTRIBUTION OF ASSETS, LIABILITIES AND INCOME (continued)

2016	GCC AED '000	Other Middle East AED '000	Europe AED '000	North America AED '000	Asia AED '000	Far East AED '000	Others AED '000	Total AED '000
ASSETS								
Cash and balances with UAE Central Bank	11,662,802	-	-	-	-	-	-	11,662,802
Due from banks	6,654,112	2,766	712,197	385,108	-	698	312	7,755,193
Investments securities	1,117,913	8,330	-	-	338,457	-	14,514	1,479,214
Financing and investing receivables	36,335,944	29	3,443	-	929	-	2,223	36,342,568
Investment properties	474,830	-	-	-	-	-	-	474,830
Customer acceptances	776,050	-	-	-	-	-	-	776,050
Property and equipment	220,265	-	-	-	-	-	-	220,265
Receivables and other assets	517,267	-	-	-	-	-	-	517,267
TOTAL ASSETS	**57,759,183**	**11,125**	**715,640**	**385,108**	**339,386**	**698**	**17,049**	**59,228,189**
LIABILITIES								
Due to banks	1,622,688	1,568	183,625	37	-	-	-	1,807,918
Customers' accounts	40,703,736	117,696	153,953	20,661	97,065	537	37,359	41,131,007
Sukuk financing instruments	7,368,138	-	-	-	-	-	-	7,368,138
Customer acceptances	776,050	-	-	-	-	-	-	776,050
Payables and other liabilities	1,421,162	-	-	-	-	-	-	1,421,162
Zakat payable	35,139	-	-	-	-	-	-	35,139
TOTAL LIABILITIES	**51,926,913**	**119,264**	**337,578**	**20,698**	**97,065**	**537**	**37,359**	**52,539,414**
Shareholders' equity	6,688,775	-	-	-	-	-	-	6,688,775
TOTAL EQUITY AND LIABILITIES	**58,615,688**	**119,264**	**337,578**	**20,698**	**97,065**	**537**	**37,359**	**59,228,189**
TOTAL INCOME NET OF CUSTOMERS' SHARE OF PROFIT	2,488,442	40	1,512	-	4,845	-	42	2,494,881

33 FINANCIAL ASSETS AND LIABILITIES

Accounting classification and carrying values:

As at 31 December 2017

	Held-to-maturity AED '000	Available-for sale AED '000	Financing and investing receivables AED '000	Other Amortised cost AED '000	Total carrying Value AED '000
Financial Assets					
Cash and balances with UAE Central Bank	-	-	-	13,258,584	13,258,584
Due from banks	-	-	-	11,182,044	11,182,044
Investments securities	-	-	33,835,397	-	33,835,397
Financing receivables	9072	1,799,478	-	-	1,808,550
Other financial assets	-	-	-	71,411	71,411
	9,072	**1,799,478**	**33,835,397**	**24,512,039**	**60,155,986**
Financial liabilities					
Due to banks	-	-	-	41,822,450	41,822,450
Customers' accounts	-	-	-	5,286,185	5,286,185
Sukuk payable	-	-	-	5,526,649	5,526,649
Other financial liabilities	-	-	-	356,988	356,988
Zakat payable	-	-	-	52,181	52,181
	-	-	-	**53,044,453**	**53,044,453**

33 FINANCIAL ASSETS AND LIABILITIES (continued)

Accounting classification and carrying values:

As at 31 December 2016

	Held-to-maturity AED '000	Available-for sale AED '000	Financing and investing receivables AED '000	Other Amortised cost AED '000	Total carrying Value AED '000
Financial Assets					
Cash and balances with UAE Central Bank	-	-	-	11,662,802	11,662,802
Due from banks	-	-	-	7,755,193	7,755,193
Investments securities	-	-	36,342,568	-	36,342,568
Financing receivables	104,436	1,374,778	-	-	1,479,214
Other financial assets	-	-	-	39,487	39,487
	104,436	**1,374,778**	**36,342,568**	**19,457,482**	**57,279,264**
Financial liabilities					
Due to banks	-	-	-	1,807,918	1,807,918
Customers' accounts	-	-	-	41,131,007	41,131,007
Sukuk payable	-	-	-	7,368,138	7,368,138
Other financial liabilities	-	-	-	580,269	580,269
Zakat payable	-	-	-	35,139	35,139
	-	-	-	**50,922,471**	**50,922,471**

The carrying value of the financial assets and liabilities that are not stated at fair value are not significantly different to their fair values.

33 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of assets and liabilities

The table below analyses assets and liabilities measured at fair value on a recurring basis. The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in principal markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: valuation using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
31 December 2017				
INVESTMENT SECURITIES				
Available-for-sale:				
Investment in funds	-	-	160,309	160,309
Investment in equities	33,148	-	356,057	389,205
Sukuks	1,249,963	-	-	1,249,963
TOTAL	**1,283,111**	**-**	**516,366**	**1,799,477**
31 December 2016				
INVESTMENT SECURITIES				
Available-for-sale:				
Investment in funds	-	-	207,993	207,993
Investment in equities	54,234	-	393,858	448,092
Sukuks	718,693	-	-	718,693
TOTAL	**772,927**	**-**	**601,851**	**1,374,778**

Reconciliation of financial assets, classified under level 3

	AED '000
Balance as at 1 January 2017	601,851
Settlements	(85,485)
Balance as at 31 December 2017	**516,366**

	AED '000
Balance as at 1 January 2016	763,482
Settlements	(161,631)
Balance as at 31 December 2016	**601,851**

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. Favorable and unfavorable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgmental.

During the financial year ended 31 December 2017 and 31 December 2016, no transfers were made between Level 1 and Level 2.

34 LEGAL PROCEEDINGS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the Group is expected to arise from legal claims as at 31 December 2017 other than to the extent already provided, hence no additional provision for any claim needs to be made in these financial statements.

35 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 59,306,804 (2016: AED 47,643,535).